BUSINESS RECOVERY and STOCK MARKET

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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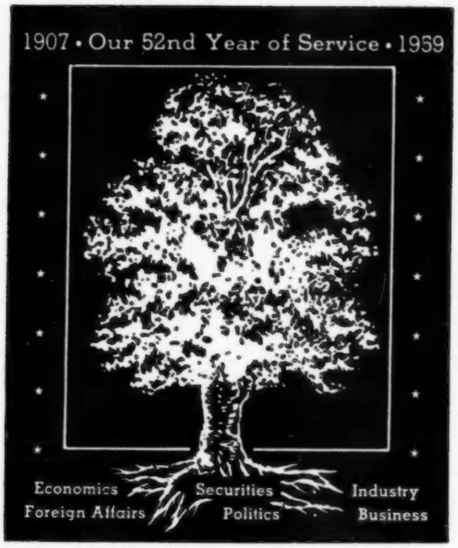
THE MAGAZINE F WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

LOGICAL STEP TO A SANER MARKET . . . The much publicized campaign of the Federal Reserve Board, S.E.C. and other Government agencies to "swat the speculator" has to date been far from a signal success. Speculative excesses continue—with wild gyrations in individual stocks, followed, on occasion, by statements from responsible corporate executives that there is no basis for the rapid advances or declines.

Yet the Government continues to ignore a simple step which might go far towards correcting distortions in the market and unjustified "bulling" of individual situations to highly exaggerated levels. The answer is . . . *repeal the Capital Gains Tax!*

Virtually everyone is aware that stock owners continue to freeze onto shares which might otherwise be sold—because they do not want to become liable for a heavy tax. This automatically limits the SUPPLY of shares offered for sale at the very time that a huge brigade of security salesmen (with thousands of recruits joining monthly) is working up DEMAND by vigorously whetting the public's appetite for common stocks. Maladjustments in security prices were a natural result—leading to manipulation, the like of which has not been seen since the twenties. The United States is the *only country levying a capital gains impost,* and we could well afford to do without it for what revenues it yields usually come when business is good and the tax take above average. On the other hand, when our economy is depressed, stock owners take market losses to cut their taxable income just at a time when the Treasury needs more money.

We advocate the end of Capital Gains Tax as a much needed approach to a saner market, where decisions can be based on the status and outlook for each company—instead of the tax considerations involved.

THE HARDWORKING BUSINESSMAN—AND THE SPENDTHRIFT POLITICIAN

This is the picture that we see when we look at the refreshing and stimulating first quarter reports, showing the splendid achievements of the American businessman in recreating profitable activity—as compared with the news of spending by the politicians in excess of the President's Budget, and money available to a point where it is dangerously devaluing the dollar.

Thus, while managerial efficiency is increasing the number of profit dollars, indiscriminate disbursements by politicians are reducing their real value. And the im-

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

pairment in buying power strikes a direct blow at the income, savings and insurance equities of all our citizens.

This free spending of taxpayers' money, even before it has been earned, is affecting our position abroad—and while our enemies are chortling with glee, our friends look askance at our judgment in allowing such a situation to run on without correction.

You can imagine the humiliation of Secretary of Treasury Anderson when, at the Money Conference in New Delhi, twenty-one different governments questioned him as to our ability to pay our bills . . . and the doubt regarding the dollar is expressed in no uncertain terms, at a time when it is necessary for us to maintain a secure position in our world-wide relations, and confidence in our capacity to meet our commitments.

And, what is more, this doubt gives money black-marketeers a field-day in exchange transactions . . . and their activities further depress our currency to below its value. This obliges us to pay more for the raw materials and manufactured industrial commodities we buy from other countries.

It is shameful that the politicians should be permitted to spend the tax money for boon-doggling and other vote-getting purposes. *It is the belief of many that 20% of tax money, at least, could be saved across the board and that a cut in taxes could readily follow.* The waste and chicanery have reached highly unreasonable proportions—and it is this that makes tax-paying particularly irksome today, among people who have always recognized and been willing to support the Government and all its projects for the good of the country.

It seems absurd that at the same time that our business executives are extending their working hours, and even succumbing to heart attacks, in order to lift our economy to peaks that will maintain our world position, our politicians should be setting in motion the machinery for destroying the value of the dollar. This truth is being recognized, and the rumble of dissatisfaction is reaching huge proportions the country over.

Strange as it may seem to the Democrats who believe that their give-aways will elect them to office in 1960, the practical citizens of the West are turning against them because of the damage that has been done to their assets and to the country at large. If the Republicans win the election in 1960, their victory can be laid at the door of the spend-thrift politicians holding the balance of power in Congress today.

People don't want an increase in taxes—they want a *cut* in taxes.

FOR OIL AND GAS STOCKHOLDERS . . . A political battle is about to start in Washington whose outcome could affect every owner of oil stocks. The tussle is over a tax provision, the so-called *percentage depletion,* and the issue is whether it should be maintained at its present rate or be considerably reduced. We believe every oil shareholder should know the basic facts and arguments involved in the issue, as discussed below.

Since 1926 oil and gas producers in the United States have been permitted, under the tax law, to deduct an amount equal to 27.5 percent of their gross income or 50 percent of net income, whichever is smaller, in computing their income tax. This *depletion allowance* was granted in recognition of the fact that each time a barrel of oil, or a cubic foot of gas, is taken out of the ground it depletes the major capital asset in oil or gas by that quantity. This is a problem peculiar to producers of mineral commodities because these are non-renewable natural resources. Therefore, every oil well, copper deposit or coal mine under exploitation is being gradually depleted of its content, and must eventually give out. Indeed, many of them have already done so.

But this situation creates a tax problem, for the price at which oil or any other mineral commodity sells, usually includes the item of capital depletion. The question therefore is, at what value is the oil producer's asset, namely, the oil in the ground, to be assessed for tax purposes?

For a number of years prior to 1926 the Internal Revenue Service valued every oil proprety separately and assigned to each its own depletion allowance. This resulted in all kinds of difficulties and disputes, because the quantity of recoverable oil in the ground could only be guessed at. Thus, Congress finally decided to change the system to a more practical and enforceable one, by granting each oil and gas producer the same depletion allowance, namely 27.5 percent of his gross income—the decision being based on the approximate average depletion allowance in existence before 1926.

Since then, percentage depletion has undergone many Congressional investigations, but has never been changed, although subject to frequent political attacks. Now, however, it is headed for a fight which could spell its doom. It will not happen this year and probably not even next year. But the opponents to percentage depletion have a long-range plan, which is designed to pick up enough Congressional support in the next two years to abolish the existing provision by 1961.

The battle will be sure to start this year, when the all-important House Ways and Means Committee begins its broad study of all aspects of the U. S. income tax law. The specific issue at stake will be whether the depletion rate for oil be maintained at 27.5 percent or lowered to 15 percent.

The percentage rate has been fought over since 1933, when President Roosevelt and his Treasury Secretary Morgenthau strongly recommended cancellation of the entire provision by Congress. There was little support for it then, and all subsequent amendments to reduce the rate were defeated by overwhelming majorities.

Last August, however, an amendment sponsored by Senator Proxmire of Wisconsin and supported by Senator Douglas of Illinois and Humphrey of Minnesota received 31 votes. Although this was still considerably less than the required majority, it was the first time that a substantial element in either House had voted against the 27.5 percentage depletion allowance.

Since that vote, several supporters of the provision have been defeated or resigned, but various newcomers to the House and Senate are known to oppose it. If that trend continues, the anti-depletion forces expect to have enough strength in the next Congress to achieve their goal.

(Please turn to page 248)

As I See It!

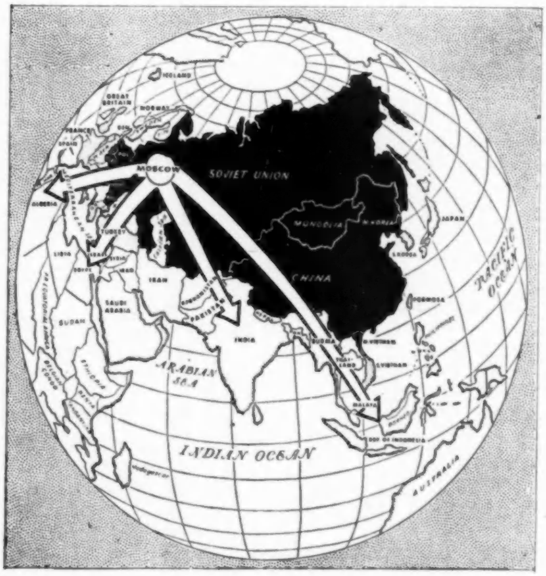
by Charles Benedict

IS APPEASEMENT OF RUSSIA NECESSARY —AND IS WAR REALLY THE ALTERNATIVE?

Whenever you talk to anyone regarding the Berlin situation he breaks into the discussion with—"Do you want war?"

This question typifies the kind of thinking going on in this country and implies an unreasoning fear of Russian arms. And yet, a glance at the map herewith will show that we not only have nothing to fear as far as the breaking out of a major war is concerned, but also that if we stand firm against Russia's threats and bombast, and challenge her sharply whenever she instigates a local uprising of one kind or another, we would win hands down.

The truth is Russia is not able to fight a world war, even with Red China as an ally, nor does she want to . . . since it would disrupt her ambitious plan to surpass the world in building a great state. Any thinking person observing the huge extent of the Russian perimeter would come to the conclusion at once, that as matters stand today it would take a tremendous industrial capacity, far greater than Russia and Red China possess, to supply the combined armies even with small arms. For in a war, Russia would have to protect her position in Europe, up to the Arctic, across the Arctic, and all the way down the Pacific into Southern Asia—and be obliged to count on her own production entirely, since Red China has not developed the facilities to enable her to assist Russia adequately in a great war. In fact, she has not been able even to subdue the revolt in Tibet to date. Of equal importance, is the fact that neither of these gigantic countries, with their teeming populations, could feed the people—nor could their armies live off the land.



Compare this with the position of the United States, and its vast industrial capacity . . . and add to it British industrial production, also that of Western Germany, as well as a growing capacity in France and Italy, and it presents a formidable picture in contrast. Of the Russian satellites, only Czechoslovakia is strong enough industrially to be counted on, but in case of war there is no question that Czechoslovakia, and all the other countries in Europe captive to Russia, would sabotage her efforts in the arms plants and behind the lines.

And Russia has no strength whatever in the Pacific comparable to that of the United States. We have Japan on our side, where post-war acceleration of industrial production has reached the highest level attained by any country in Asia. Then there are the Philippines, too, with growing industrial capacity.

This is the true position we occupy vis-a-vis the Soviet Union as far as the productive capacity for armaments is concerned—apart from the arsenal we already possess in the various countries adjacent to Russia, and the numerous other essentials required in waging an all out war.

Is it likely, under these circumstances, that Russia will want to take us on? I doubt it, for Khrushchev is better aware of it than we are.

In recognition of this truth, Russia has always sought to win victories through infiltration and every other psychological means at which she is a past master. Therefore, it seems to me as we approach the Foreign Ministers' and Summit meetings, we can do so without fear that our one alternative to war with Russia is appeasement. It is absurd and unthinking to believe anything so foolish. END

Business Recovery and The Stock Market

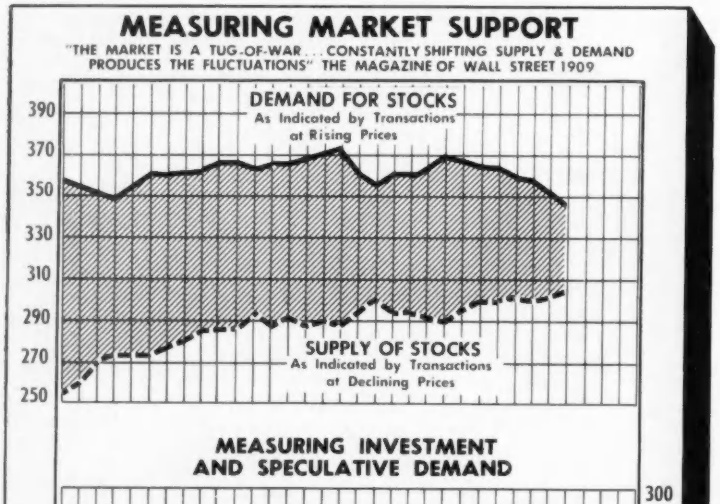
Caution and hesitation once more gained the upper hand in the financial markets last week. Stimluating influences exerted by excellent March quarter financial statements have about run their course. Continue to stress careful selectivity in the handling of your investment funds.

By A. T. MILLER

Behind the quite selective irregularity and indecision, a noticeable contraction in restless speculation in the stock market can be detected. Stocks now seem to have slipped into a sidewise drift designed to consolidate earlier gains. Reflecting an adjustment to powerful outside influences, the price structure has come under control of two areas of massive resistance. The result may be a brief period of backing and filling.

On the side tending to depress sentiment is a growing awareness of possible industrial idleness at the end of next month. A cautious attitude is dictated also by the approaching international conference seeking to agree on a formula for a Summit Meeting this summer. In addition, the excellent first quarter profits are now being discounted.

On the other hand, forces likely to provide support on the downside include the prospect of another bulge in the nation's money supply contributing to pressure of funds seeking employment in equities. In addition, there is the thought that an eventual settlement of a prospective steel strike and other disruptions of a normal routine, almost certainly must involve concessions of some kind to labor that would foreshadow higher prices for finished goods. Moreover, unwillingness to assume seemingly unnecessary capital gains tax liabilities, tend to limit the supply of stocks offered for sale.



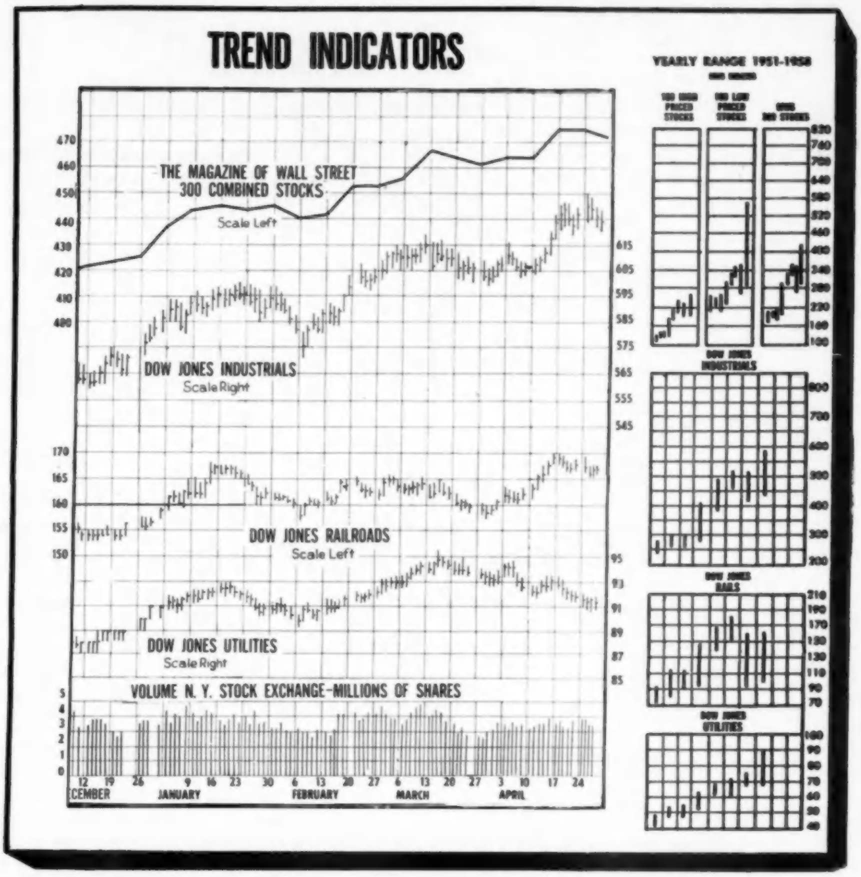
Of all these factors, probably the threat of a steel strike has gained greatest prominence at the moment. Disclosure of almost startling demands to be made on the steel industry at the opening of contract negotiations this week dissipated all lingering hope that the union leaders would tone down their terms in the interest of checking the cost-push price inflation spiral.

Not only in Wall Street, but also in Washington and in industrial centers, the declaration of the Steelworkers' leader that the highest wage hikes in the history of collective bargaining would be sought, and the all-out support promised by the parent A.F.L. — C.I.O. union, was considered a forerunner of a strike upon termination of the present contract on June 30. The fact that steelworkers, with an average straight time pay scale of $3.03 an hour (including fringe benefits), are among the highest paid craftsmen in the country has not deterred their leaders from pushing for still greater demands.

New Inflation Prospect

New Treasury financing taking place this week directs attention again to difficulties of raising funds except on a short term basis that encourages enlargement of money supply. To provide

itself with funds to meet a May 15 maturity of $2.7 billion, the treasury proposes to offer $2 billion in 340-day bills maturing April 15, 1960 and $1.5 billion tax anticipation bills due in December. Another issue of $2 billion certificates maturing in a year is scheduled for next week, making a total of $5.5 billion in obligations due in a year or less. Such issues find their way into commercial banks for the most part, rather than into the hands of individual investors. The consequence is another fillip for inflation.



Favorable Business News

Although cheerful earnings statements were beginning to lose their powerful stimulating effect on sentiment, industrial news continued to provide a favorable background. Best results stemmed from the electronic, machine tool, textile and television groups. Reduction in the Aluminium Ltd., dividend had a quieting effect on metals, but Anaconda's above average first quarter showing — 165% gain — clearly proved the point we have been making all along; that stocks should be purchased on the position of the individual companies rather than on averages. Steels eased in reflecting uneasiness over fresh strike threats. In view of the large number of labor contracts in other industries expiring in June, May could be a rather critical month as far as strike threats are concerned.

Technical Indications Dubious

The principal technical indicators have become less bullish, although the deterioration is not great and may prove temporary. As charted on the previous page the spread between demand and supply of stocks has narrowed, and is, in fact, the narrowest in some time. Although the gap is still considerable it is smaller now than it was at the lower, yet rising levels of stock prices around mid-January and mid-March.

In recent days the ratio of new highs to new lows among individual stocks (measured by excess of the former over the latter), has been the least favorable in many months. Moreover, in each of the last two weeks, more stocks declined than gained.

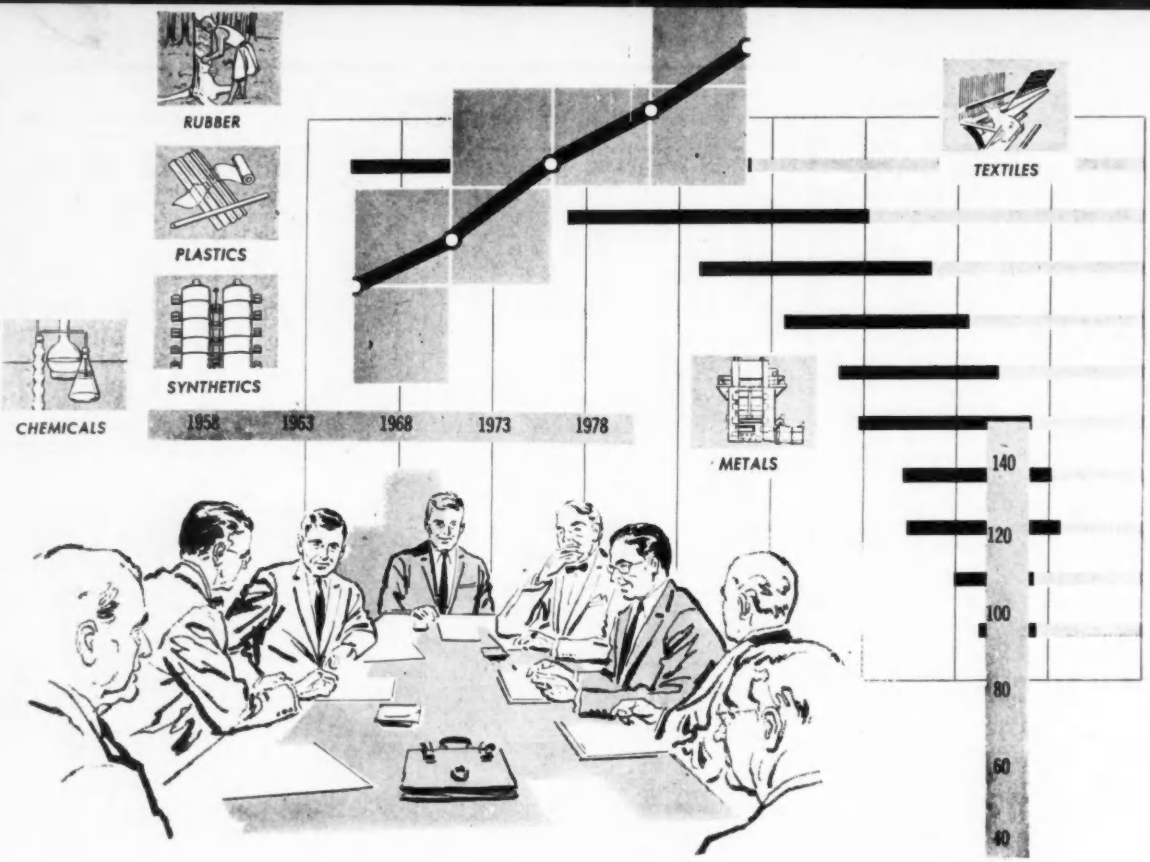
Bearing on this, the average rose 2.15 points to a new high of 629.23 on April 21. but on that day 427 stocks gained ground while 604 were down. In the initial trading session last week the average rose 2.48 points to a high of 629.87 (a 64-cent betterment of the prior week's best level). But — in that session only 545 stocks gained while 495 declined.

Turnover on attainment of the late April highs by the industrial average was moderately smaller than that on the rise to the mid-March high of 614.59 — or on the bulge to the January 21 high of 597.66. Recent day-to-day volume variations either way have been too small to carry much weight.

Excess of odd-lot buying over selling has been increasing, an indication often unpromising at high market levels when other indicators look dubious. Finally, relative performance suggests that some stock groups may have made at least intermediate highs — if not more significant tops — which could stand for some time. Despite exceptions among individual issues, that seems to be the present implication in over-all chart patterns of electric utilities, natural gas stocks, the steel group, international oils, domestic crude oil producers, food-store chains, cement stocks, metal containers, coal, coppers, gold mining, some major aircrafts.

Business news remains bullish, but at a generally high level of stock prices, bullish fundamentals do not necessarily assure either a *dynamic* rate of market gain, or that the corrective phases, will continue to be as mild as those seen from time to time during the past year or so. People who think that 3% to 5% dips in the industrial average have become normal could be surprised by 10% to 12% reactions, whether soon or after further gains.

We would continue to hold good stocks in securities which have rising current earnings trends, and good earnings *(Please turn to page 248)*



Significance Of Fresh Industrial COMMODITY PRICE BREAK-THROUGH

— What It Means To Business — And Profits —Change In Third Quarter Outlook

By Roger Wallace

- **Our short-lived recession ends — with recovery abroad already under way.**
- **Rising demand for industrial materials as recovery progresses and as new demands from Communist countries assume major proportions.**
- **What likelihood for profit squeeze ahead?**
- **Why business in the third quarter looks good — once steel strike, if it should come, is ended.**

ARE we on the verge of a fresh break-through in the general commodity price structure, that will lift the price level far and above previous all-time highs?

A few months ago, when industrial recovery here was proceeding at a snail's pace and when business activity still was lagging in most industrialized countries abroad, there was little evidence to indicate that the price level would do other than hold within a very narrow range for months to come. The prospect of lower prices for farm products and foods, it was felt, would just about offset the tendency of "industrial commodity" prices to move ever higher.

But, conditions have been changing and changing rapidly in recent weeks, necessitating a new appraisal of commodity price prospects.

Recovery Pace Accelerates

Here in the United States, industrial activity—as measured by the Federal Reserve Board index—has accelerated its uptrend. In March, the index rose to a new high of 147 (average 1947-49 equals 100), surpassing by one point the pre-recession high recorded in December, 1956.

To be sure, the uptrend in the FRB production index has been aided by the sharp upsurge in metals production, reflecting anticipatory buying of steel and other metals against the possibility of strikes.

It should be noted, however, that the combined weight of primary metals production in the FRB index is comparatively small, and that recent pro-

nounced strength in metals output by itself would have been far from sufficient to lift the index to a new all-time high.

Consideration must be accorded the fact that production in the nondurable or soft goods industries, where there are no serious strike threats, not only has fully regained its pre-recession levels but has risen to new record highs.

Recovery Abroad Under Way

The industrialized countries abroad were slower than the United States in reacting to the 1957-58 business recession and, by the same token, have been slower in recovering.

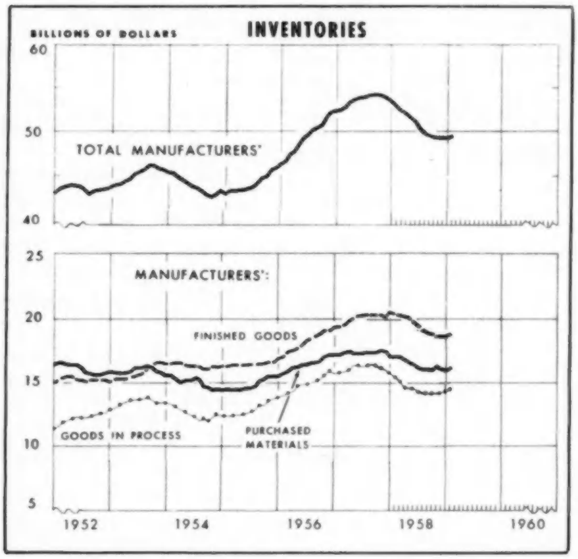
Textile mill activity, of greater relative importance abroad than here, began to show signs of emerging from recession late last year. During the past few months, textile operations have been stepped up.

Meanwhile, it has become increasingly apparent that the improvement first noted in the textile industry has been spreading to other industries.

World Prices Move Up

The international markets for primary commodities or materials, sensitive barometers of changes in world demand conditions, very recently have begun to reflect the impact of mounting demands from abroad superimposed on high level, and still rising demand for materials here in the United States.

► For example, at the resumption of the Australian raw wool auctions following the extended Easter holiday suspension, prices rose more than generally expected and, at latest reports, still were rising.



► Reuter's United Kingdom price index, a "sensitive index" of primary commodities or materials, generally is considered as a good measure of world price trends. No longer ago than mid-March, this index was scraping bottom at only a fraction above its 1958 low.

► During April, however, Reuter's index staged a show of strength such as has not been witnessed in a long time.

"Something New Added"

In evaluating commodity price prospects from the standpoint of rising demands both here and abroad as a result of recovery from business recession, recognition also must be given to the sharp increases in demands for numerous commodities emanating from the Iron Curtain countries.

Takings of natural rubber by the Communist countries for example, have risen suddenly to the point where the total closely equals annual consumption of natural rubber here in the United States.

This is just one example out of many.

Quite frankly, we have no ready explanation for the sudden increase in Communist buying activities in numerous world markets. These may reflect "military preparations". Or, they may be a part of the Communist plan to attain a dominant position in world trade and world markets.

In this latter event, it might be expected that the Communists would use the threat of "dumping" their commodity purchases to attain advantage in world trade affairs.

There are good reasons for believing, however, that the sharply increased takings of commodities or materials reflect the recognition by the hierarchy that the low standards of living must be elevated to appease the people.

During the past year or two, the populaces of the Communist countries have become increasingly aware of the wide gaps between their living standards and those of the people of the Free World. And, there is evidence that they are weary of promises of "pie in the sky".

World Supply Position

Only a few months ago, with world demand for commodities at a comparatively low ebb despite the improvement stemming from industrial recovery in the United States, supplies of most commodities or materials appeared to be sufficiently large to eliminate the possibility of any shortages developing in the foreseeable future.

Now, with European industrial recovery under way and with the Communist countries sharply stepping up their purchases of numerous commodities, fresh consideration must be given to the adequacy of supplies.

Is the recent pronounced price strength in hides, rubber, and wool a forerunner of somewhat similar price strength in the general commodity list?

To be sure, the world productive capacity is sufficient in the case of most commodities to meet higher world demands. But, productive capacity is one thing and actual production another.

During 1957 and 1958, prices of many primary materials fell a long way as a result of the contraction in demand. Supplies backed up, and production was curtailed.

Production of most commodities cannot be turned on and off like a tap. Just as many months were required before production was reduced substantially in response to declining demand and falling prices, so may it be many months before production is increased substantially in response to rising demand and rising prices.

In the interim, the possibility looms of at least

temporary shortages in supplies of some materials.

Even allowing for a temporary setback in industrial activity and demand for materials here as a result of a steel strike, the indications are that the upturn in business still has some to go before encountering any obstacles. *This may not be a boom, but it has the earmarks at least of a very healthy boomlet.*

Industrial recovery abroad is just getting under way. And, on top of the prospect of rising demand for materials in Europe as recovery progresses, demands from the Communist countries are assuming major proportions.

Manufacturers' Stocks Low

Manufacturers' inventories of purchased materials, measured as a whole, are smaller now than at the depths of the recession in April of last year. Stocks are below the immediate pre-recession levels, even though industrial recovery and consumption of materials now are making new record highs.

Only very recently have manufacturers' inventories of purchased materials begun to show any increase, and gains have been confined largely to materials for durable goods production. Here, presumably, the stocking up of metals against the possibility of strikes is a factor.

Most purchasing agents for industry have maintained pretty much of a hand-to-mouth buying policy during the past year of business recovery. For one thing, there has been considerable question in the minds of management as to the permanency of the business recovery.

Furthermore, the majority of purchasing agents—still influenced by the ample availability of supplies some months ago when world demand was at lower levels—felt that supplies would continue ample indefinitely.

This psychological reaction to events long before, is typical of this stage in previous postwar recovery periods. But, this attitude, approximately a year after recovery began, has given way rather quickly to rising concern over the availability of supplies and over the possibility of higher prices.

Profit Squeeze?

Although there appears to be little likelihood of an "inflationary" upsurge in prices of primary commodities or materials, husky price increases are quite possible if our analysis of the trend of the world supply-demand position is correct.

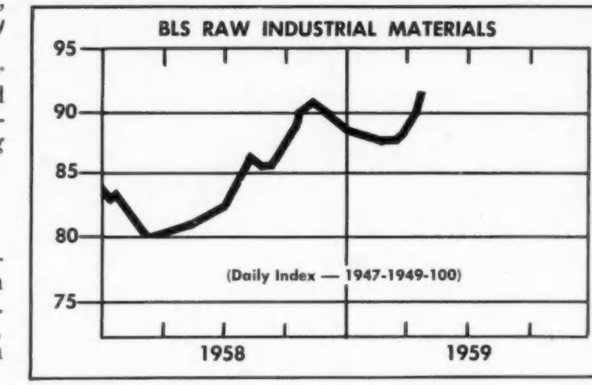
Prices of primary materials have staged some comeback over the past year, but still are well below their pre-recession levels in most instances.

The comparatively "low" level of materials prices undoubtedly has been a factor of some importance in the recent improved profits showings of numerous industrial organizations. Low materials costs have tended to offset rising costs in other areas.

An upsurge in materials prices, even to no more than pre-recession levels, might add considerably to industry costs of production.

Faced with the virtual certainty of higher labor costs, which are difficult enough to pass on to consumers, could industry meet possible substantial increases in materials costs without considerable contraction in earnings?

Business men and investors seem to be giving little thought to this possibility, although it may not be too long before it becomes a matter of considerable importance, in some instances at least.



There appears to be little doubt that industry, through its failure to accumulate inventories of materials at low prices over the past year, has laid itself wide open to substantial materials price increases.

Price Breakthrough

The Bureau of Labor Statistics wholesale price index, on the evidence of weekly data, has just broken through to a new all-time high.

The recent rise in the index, to approximately 120 percent of the 1947-49 base, has lifted it only fractionally above the previous high recorded a year ago.

The breakthrough into new high ground, it is pointed out, has resulted from advances in prices of farm products and foods. These are the areas, it may be remembered, where lower prices resulting from big supplies had been expected to offset or about offset price increases in other areas this year.

Seasonal factors, according to some authorities, have been primarily responsible for the recent somewhat disturbing price advances in farm products and processed foods.

Be that as it may, the recent advances of the wholesale price index into new high ground is a psychological factor of considerable importance. Even though the increase itself may have been comparatively inconsequential, the very fact that it has occurred tends to provide fuel for the rising tide of inflationary sentiment.

Thus far in the 1958-59 recovery period, there has been little or no evidence of inflationary sentiment in the commodity markets themselves. However, as a result of recent events, the likelihood is diminishing that the commodity markets will continue to ignore the heightening of inflationary sentiment that has been such an important influence in recent months in the securities markets.

Whether or not there is a sound or logical basic for the increase in inflationary beliefs is not to the point. As is well known, logic frequently has played an unimportant role in *(Please turn to page 230)*

WHAT FIRST QUARTER EARNINGS INDICATE... LOOKING TO 1960

By Ward Gates

WITH a few exceptions, the flood of first quarter earnings reports is making this a pleasant spring for stockholders. It has been common knowledge for several months now that American industry was doing well in this year's operating period, but in general the reports are even better than expected.

What is most impressive, moreover, is the broad sweep of the profits improvement. Increases in steel company earnings were a foregone conclusion in view of the industry's high operating rate through most of the quarter(the steel, auto and auto accessories industries are covered in separate articles in this issue), but few would have expected Ford's earnings to snap back as smartly as they did. Nor would many analysts have expected Chrysler to return so quickly to the black.

Similarly. the oil industry, supposedly beset by political difficulties, import quotas and a teetering price structure, is contributing some excellent first quarter statements; and so are the chemical and paper groups despite the continuing problem of overcapacity in many basic products.

Before waxing rhapsodic over this years figures, however, a little perspective is in order. For one thing, comparisons are being made with the first quarter of last year, a period that was among the very worst in the post war period. Secondly, and this is vital, many of the reports while looking good against last year's first quarter are not quite so impressive when meaured against the fourth quarter of last year.

As a case in point, high flying **IBM**, the world's leading producer of business machines reported sales of $295 million and earnings of $2.38 per share in the opening period of this year, compared with $267 million and $1.98 a year ago. However, despite the better comparison, it must be pointed out that the latest earnings are the lowest for the last three quarters reported. In the third quarter of 1958 IBM earned $3.45 a share. On higher sales, reported earnings dropped to $2.93 in the fourth

quarter, and now they have dropped again.

In part, the results are explained by the extra income IBM received last year from the sale of equipment formerly leased, but the lion's share of that boost was felt in the third quarter. Thus, it does not explain the drop in sales and net income between the fourth and first quarters.

In a similar vein, **Allied Chemical** reported sales of $169 million in the first three months of this year, and earnings of $1.15 per share. Last year, the comparable figures were $149 million and only 68¢. But it is significant that on better sales than in the fourth quarter, Allied was only able to earn 2¢ more per share.

Undoubtedly, Allied's first half results, and possibly the entire year, will show a substantial gain over the depressed figures reported last year, but the narrowing of profit margins between the last two quarters indicates that the company may have already enjoyed its major cost saving advantages.

Is Growth Rate Slowing Down?

The last point is crucial, because it provides the perspective necessary for an objective appraisal of corporate earnings. In our articles covering the third and fourth quarters of last year, we pointed out that industry was reaping enormous advantages from recession-imposed cost cutting practices and lower labor costs. Moreover, it was emphasized that this was a normal course of events that occurred in the initial phases of all business recoveries.

It will take at least another quarter to reach definite conclusions, but from the results on hand now, it appears that this initial phase is now past for most major industries. *This does not mean lower earnings ahead, but it does mean that the rate of earnings growth may be considerably slower than the stock market has been anticipating.*

As we proceed to discuss many of the companies listed in the accompanying table, it will be well to bear the foregoing in mind lest the figures lead to over-enthusiasm.

Some Top Notch Performers

Chemical companies, considering their constant battle with overcapacity turned in sterling results in the first quarter. **Monsanto Chemical,** despite the fact that its Lion Oil division is still dragging its feet, raised its net income to 52¢ per share from only 27¢ in the first quarter of last year. Moreover, these better results were achieved without significant price increases and despite the fact that Monsanto maintained a more stable level of employment than most of its competitors.

For the balance of the year, the Lion Oil Division will determine whether 1959 will be a truly good year, or just a better one than 1958. So far, however, the company has begun on the right foot.

Furthermore, oil company reports so far, indicate that Lion may have better days ahead. In general, the petroleum companies are issuing far better statements than a year ago. For most, profits are still well below the record highs reported in the first quarter of 1957 when the Suez crisis inflated operating results, but they compare favorably with most other opening periods in recent years.

The outstanding exception is **Texaco** (formerly Texas Company) which reported an all-time record first quarter of $1.56 per share against $1.25 in the same period a year ago. Texaco's report is interesting in that it refortifies the notion that stock prices reflect earning power. For several months now the entire international oil group has been under pressure in the stock market, but Texaco has been a notable exception. Now we have the answer, and it is an answer that bespeaks a healthier situation than stock splits, rumors, or stock dividends that give the shareholder nothing but additional pieces of paper.

du Pont Scores

Among the truly major companies, **du Pont** again proved its mettle. Sales rose to a record 507 million dollars for the period, and earnings soared ahead of last year as well as the excellent first quarter of 1957. A year ago du Pont reported net income of $1.51 per share, but only 87¢ from its own operations. The balance represented dividend income from its General Motors stock. Two years ago, the company reported $2.12 in the first period, of which $1.48 was from actual operations. This year, however, earnings from operations soared 70 percent over last year, and with the General Motors dividend, raised net per share to $2.17.

It appears, therefore, that du Pont is off to a good start towards overtaking its record $9.26 per share earned in 1955. In that year, of course, the cause was aided considerably by an extra GM dividend, but the record may be exceeded if product prices, especially for nylon and cellophane can be held through most of the year.

Building Materials Score

The strong construction trend that did so much to buoy the economy last year, and is continuing so far in 1959, led to excellent earnings for many of the building material manufacturers. **Johns-Manville** reported a healthy jump in sales to $74.7 million from $65 million a year ago, and a startling 100 percent jump in net income. Earnings for the period equalled 56¢ per share compared with only 27¢ a year ago. The earnings are even more impressive because 1958's results have been adjusted to include the operation of L.O.F. Glass Fibers which Johns-Manville acquired on January 1, 1959.

A source of concern several months ago, was the high price the company paid for L.O.F. Apparently, however, it was worth the price. For profit margins now are better than ever, the glass business is booming, and Johns-Manville has been able to use the added revenues to keep its cost-cutting program alive longer than most companies.

National Lead, a leading supplier of paints, and a highly diversified organization, also enjoyed an excellent first quarter. Sales rose 13 percent to $122 million, and earnings climbed 25 percent to 96¢ per share from 76¢ in the same period a year ago.

Adding to the attractive outlook for the company, aside from the healthy construction materials market, is the high level of demand for all of National Lead's products. Fabricated metal products are booming, titanium and lead pigments are selling

Quarterly Comparison of Sales and Earnings

	1959		1958							
	1st Quarter		4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share
Abbott Laboratories	$ 33.3[1]	$1.09	$ 25.9	$ .67	$ 34.1	$1.18	$ 23.6	$ .32	$ 33.0	$1.16
Air Reduction	47.9	.97	46.5	.90	43.1	.83	42.3	.83	46.2	1.16
Allied Chemical	169.0	1.15	161.7	1.13	158.4	.81	166.4	.86	148.8	.68
Aluminum Co. of America	189.5	.49	182.4	.46	204.1	.62	185.1	.36	181.5	.53
American Airlines	69.4	[2]	78.4	.61	85.0	.66	82.7	.55	71.0	.12
American Cyanamid	145.8	.62	136.7	.75	130.9	.41	124.8	.33	132.5	.58
American Machine & Foundry	57.6	1.40	54.3	1.26	28.7	.56	49.6	.56	51.3	.82
Amer. Rad. & Stand. Sanitary	89.7	.26	93.1	.34	94.6	.21	85.0	.19	78.5	.11
American Tobacco	261.5	1.85	285.1	2.34	292.0	2.29	278.8	2.13	247.5	1.79
Blaw-Knox	45.4	1.20	40.5	1.13	38.1	.81	50.8	.98	38.2	.90
Burroughs Corp.	80.9	.23	84.1	.33	68.7	.25	71.6	.25	68.0	.18
Caterpillar Tractor	69.8	1.19	106.7	.39	181.0	1.54	169.9	1.20	46.5	.37
Colgate-Palmolive Co.	141.6	1.85	130.5	2.45	138.0	2.52	137.1	1.53	128.2	1.72
Container Corp. of Amer.	66.2	.38	67.4	.35	68.1	.35	63.0	.34	60.6	.31
Crown Zellerbach	120.7	.58	122.8	.69	122.6	.65	114.8	.54	108.5	.45
Douglas Aircraft	227.5	[2]	321.1	.07[3]	294.7	1.02[3]	281.8	1.09[3]	312.1	2.25
Dow Chemical	169.4	.52	184.6	.64	157.2	.43	154.1	.35	144.8	.31
Du Pont	507.0	2.17	512.9	2.41	478.5	1.75	445.6	1.58	415.0	1.51
General Electric	976.5	.60	1,138.1	.92	1,003.6	.67	1,014.0	.62	964.9	.56
Georgia Pacific	39.3	.66	39.6	.55	40.8	.78	39.1	.59	32.8	.56
Gillette Co.	46.2	.47	48.0	.84	54.3	.80	48.6	.70	42.8	.48
Hercules Powder	64.1	.57	68.0	.56	60.6	.59	59.9	.51	56.8	.38
Hooker Chemical	34.9	.43	34.6	.40	30.8	.34	60.1	.69	29.0	.34
International Business Machines	295.6	2.38	305.7	2.93	301.4	3.45	297.1	2.30	267.4	1.98
Johns-Manville	74.7	.56	108.7	.72	84.7	.98	79.1	.85	64.9	.27
Lehigh Portland Cement	12.3	.20	18.2	.52	24.7	.73	22.1	.67	10.6	.19
Lorillard (P.) Co.	113.8	1.82	125.8	1.56	132.0	2.51	117.1	2.09	104.0	1.65
Minneapolis-Honeywell Reg.	84.2	.85	95.2	1.11	82.7	.84	77.3	.67	73.1	.61
Monsanto Chemical	149.8	.51	194.7	.66	182.4	.51	176.1	.41	127.4	.27
National Dairy Products	362.8	.70	360.7	.86	368.1	.80	364.0	1.02	358.3	.65
National Distillers & Chem.	128.0	.54	151.4	.44	134.5	.44	124.0	.39	114.3	.49
National Lead	122.1	.96	118.6	1.01	116.0	.94	114.6	.94	108.2	.76
North American Aviation	255.9	.90	220.8	.73	225.1	1.07	216.2	.67	239.8	.80
Owens-Corning Fiberglass	46.1	.38	53.1	.60	46.1	.45	41.5	.33	35.9	.29
Owens-Illinois Glass	123.4	.98	128.7	1.33	136.2	1.42	124.1	1.27	110.3	.80
Parke, Davis & Co.	44.8	.47	47.3	.64	42.0	.35	40.3	.42	42.8	.48
Pfizer (Chas.) & Co.	60.5	1.17	62.3	1.25	53.4	1.04	53.1	.93	53.7	1.20
Philip Morris	105.4	1.02	112.8	1.44	113.3	1.33	115.2	1.31	99.3	.82
Polaroid Corp.	14.7	.39	24.0	.69	16.3	.55	13.1	.30	11.6	.32
Raytheon Mfg.	109.1	.71	111.1	.98	84.9	.82	98.7	.71	80.3	.58
Reynolds Metals	111.8	.74	112.4	.86	110.5	.75	106.8	.81	115.7	.85
Reynolds (R. J.) Tobacco	286.8	.97	301.4	1.05	304.9	1.02	285.7	.90	254.4	.84
Rohm & Haas	50.5	4.58	48.6	4.25	44.3	3.09	44.3	3.11	39.2	2.55
Scott Paper	72.4	.73	74.3	.77	69.0	.63	71.0	.69	70.6	.66
Simmons Co.	31.6	1.21	26.2	1.23	34.0	1.29	29.2	.91	27.7	.66
Smith Kline & French Labor	32.4	1.26	31.2	.98	31.4	1.17	30.7	1.11	30.6	.99
Stauffer Chemical	38.1	1.03	37.2	.84	42.5	1.23	42.0	1.18	37.5	.78
Texas Co.	(NA)	1.56	597.6	1.41	593.4	1.53	570.9	1.17	565.8	1.25
Texas Instruments	30.0	.74	27.9	.74	21.8	.44	21.7	.32	20.4	.34
Union Bag-Camp. Paper	43.0	.66	42.1	.66	41.1	.55	36.8	.46	36.8	.46
Westinghouse Air Brake	41.9	.47	47.3	.60	45.5	.33	60.2	.62	53.0	.55

(NA)—Not available. [1]—Estimated. [2]—Loss. [3]—After special charge.

at a near record clip, and increased industrial activity is bringing a strong demand for the company's die casting and journal bearing lines. Barring a prolonged steel strike, National Lead appears headed into an excellent year.

Among the suppliers of wood products to the building trades, **Georgia Pacific Corp.** the largest plywood producer, had a standout first quarter. Despite the fact that the number of share outstanding rose by 700,000 between the first quarters of 1958 and 1959, the company was still able to report 66¢ per share this year compared with 56¢ a year ago.

Higher prices for plywood were partially responsible for the gain, but of equal importance was the fact that two new mills completed in the latter part of 1958 allow the company greater utilization of each log processed. Actually, there is no longer any waste at all, since any part of the log that cannot be used for plywood is now processed for pulp or is pressed into wallboard products.

From all indications, Georgia Pacific will have an even better second quarter, since startup costs on the new plants will have been completely absorbed. If plywood prices remain strong (and they are very firm now) 1959 will be another in a succession of record breaking years for the company.

Drugs Backtrack

Not all industries scored gains over last year. The drugs benefited a year ago from the strong demand for flu vaccine and record earnings. Since then, however, they have been backtracking for several quarters. Surprisingly, even **Pfizer,** with a long record of successively higher profits, failed by a small margin to match last year's $1.20 per share. We have warned in the recent past that increasing competition was taking its toll on the drug companies, but so far there has been no reflection of concern in the stock market. It is significant, however, that Pfizer's 3¢ per share decline in profits occurred despite a $7 million increase in sales.

Nor is Pfizer's experience unique. **Parke Davis,** another of the major companies in the field raised its sales to $44.8 million from $42.8 million, but per share net eased to 47¢ from 48¢ a year ago. In addition, **Abbott Laboratories** reported lower earnings of $1.09 per share against $1.16 a year ago on sales that were roughly equal in the two periods.

American Cyanamid, was one of the few exceptions but better chemical operations helped considerably in the improvement. Nevertheless, Cyanamid's performance was impressive. Last year's 58¢ per share was good compared with most chemical companies, indicating that diversification into drugs had helped stabilize earnings. This year, the company reported higher sales and a net of 62¢ a share because chemicals helped offset the slight softness in drugs. This pattern has all the earmarks of good diversification and is a tribute to the company's managerial planning.

Aluminum Still Lags

Despite the strong surge in steel and the improved outlook for copper, aluminum has still failed to respond sharply to the business recovery. From all indications, however, the companies may have passed their low points. **Alcoa,** for example again failed to improve its earnings results, but it did report higher sales than a year ago. Lower prices dropped net per share to 49¢ from 53¢ in the first quarter of 1958, but if shipments continue to improve some price increase appears inevitable. In the first period, the industry's leading producer shipped over 150,000 tons of metal, a figure higher than any quarter last year except the third when an expected price increase led to some advance buying by the auto industry.

Currently, the price of aluminum is 24½¢ per pound compared with 26¢ a year ago. At the present level of shipments, even an increase to 25¢ should bring earnings above the year earlier level. Alcoa's outlook is darkened, however, by the possibility of a strike, or at best higher wage costs when its labor contracts expire in August. Buying in anticipation of a strike may raise the operating level in the second and third quarters, but a prolonged strike will certainly hurt earnings.

Reynolds Metals, of course, faces the same problems. Earnings dipped in this year's first quarter but it must be noted that they were artificially high last year since the company was making heavy deliveries for government stockpile. With the major part of that program now completed operations for the balance of the year will be controlled by the same factors affecting the rest of the industry.

Other Important Reports

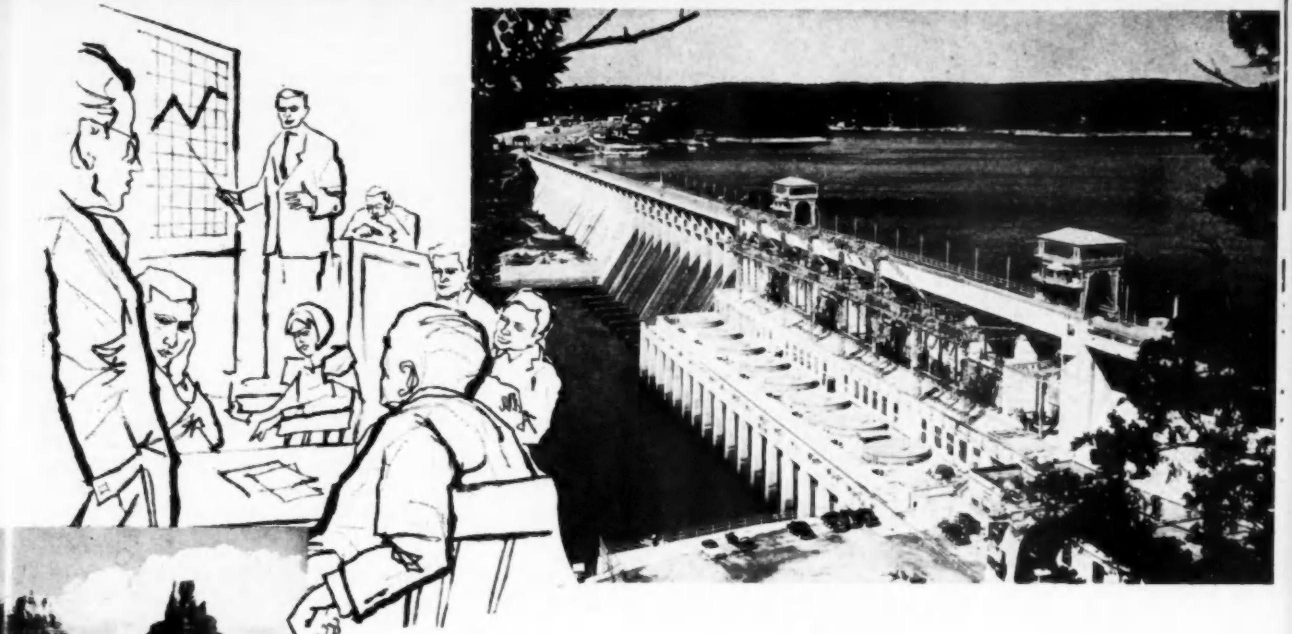
Among the larger companies, **General Electric** continues to perform impressively. Sales advanced a disappointing 1 percent in the first quarter, but successful cost control led to a 7 percent increase in earnings to 60¢ per share from 56¢ a year ago. Profits were still below the 73¢ per share reported in the first quarter of 1957, but this year's performance was turned in despite a sizable decline in sales of heavy generating equipment to the utilities. Since this is high profit margin business, the improved results so far this year indicate that GE is making even greater progress than expected in holding down the costs of appliance and defense production.

Another outstanding company in the electronic field, **Minneapolis-Honeywell,** also continued its excellent earnings pattern in the quarter just ended. Sales increased to $84.2 million from $73.1 million a year earlier and earnings scored a healthy advance to 85¢ per share from 61¢. The continued excellent level of new home construction remains a strong plus factor for Honeywell, but even further improvement may develop this year if industrial construction begins to climb in dynamic fashion.

In recent years, Honeywell has shown an uncanny ability to maintain its profit margins intact regardless of the level of business. This year they have surged, indicating that still higher earnings are in the offing.

The Glamour Stocks

In general, the glamour stocks—or high fliers—acquitted themselves quite well in the first quarter. **Polaroid** increased its sales to $14.7 million from $11.6 million in last year's first quarter, and raised its earnings to 39¢ from *(Please turn to page 245)*



THE DESERTS of the SOUTHWEST OFFERING NEW AVENUES for GROWTH

► **With new opportunities too in resurgence of areas now stagnated by water shortage and pollution**

By McLELLAN SMITH and JAMES J. BUTLER

► **The successful development of a limitless fresh water supply by the government opens up the deserts of the Southwest to broad avenues of economic expansion—and creates a vast new multi-billion dollar industry.**

► **Will also revitalize and stimulate depressed and stagnant areas to stability and new growth.**

► **Leading the way to broad industrial expansion—new sources of food supply for now and the future—new jobs—homes—based on an American standard of living.**

THE Federal government is on the doorstep of a dramatic breakthrough which promises to do more to open new industrial vistas in the west and southwest than anything that has happened since parallel lines of steel rails stretched into unclaimed vastness and began drawing on waiting resources. Further, there is new hope for seaboard cities of Atlantic, Gulf and Pacific coasts confronted with dwindling fresh water reserves.

In cooperation with scientists who have long toiled over the problem, the government has developed practical processes for reclamation of saline and brackish waters — from sea and underground sources. A demonstration plant is contracted for; four more are on drafting boards. Laboratory and engineering tests bode nothing but good. Poised for the "go" signal are developmental interests which foresee functional, modern industry in relatively inexpensive acreage where problems of employee housing, transportation, etc., can be handled with ease; where prompt links to all forms of transportation can be made with mutual profit.

The methods, hereinafter described, mean pure water for domestic consumption and agriculture, for service to industries which cannot utilize salt waters of the sea and of saline-laden tributary streams and compounds. Only saline-heavy water has been available. That circumstance for generations has blocked the progress of agriculture, industry, and population growth in a substantial percentage of the otherwise reclaimable area of the United States.

If industry — new industry — could operate in modern plants with suitable transportation available (official Washington says there is no doubt about that)—it could put an end to the temporizing, "face lifting," and other practices and programs which have, in effect, merely perpetuated the stale-

mate in industrially depressed areas in many sections of the United States—instead of awakening, restoring and developing them.

Reclaiming the Southwest

There is substantial agreement that the plan that ranks highest for building future agricultural and industrial growth in the United States, is to be found in irrigating the arid lands of the Southwest, along the lines of the system used by Israel that made the deserts bloom in the waste lands of the Negev.

It would open up the area to industrial expansion—to new sources of food supply for now and for the future—new jobs—homes—based on an American standard of living.

Revitalizing Sub-standard Areas

At the same time, the successful development of a palatable and plentiful water supply could revive and rehabilitate depressed sections now suffering from a water shortage which is affecting areas where the seriousness of water pollution is making industries seek new locales, bringing economic stagnation in its wake.

It has become uneconomic for many industries to attempt disposal of their industrial wastes, and impossible for them to continue to pay the fines levied against them for polluting streams. The generalization that water is never destroyed but returns for re-use is subject to modification on the basis of gallonage adversely affected by industrial waste.

A century ago, when the economy of this country was largely agricultural, water pollution was a little understood term and the basis of even less concern. Today the combination of new manufacturing processes and large-scale agriculture have not only placed millions of gallons beyond human usability, but also have destroyed stream banks from the standpoint of habitation.

It's Imperative That Congress Take Action On This Project

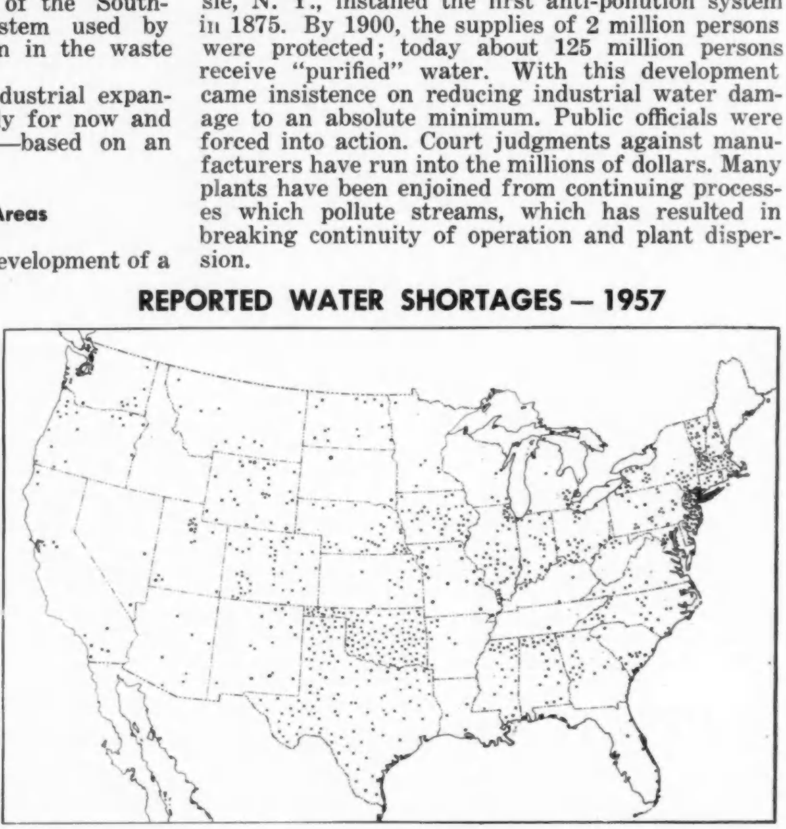
Although there is powerful Congressional support for a program to "do something" in a visible and tangible way, thus far it has resolved itself merely with the "face lifting" problems of depressed areas. That "something", for lack of a more imaginative approach, threatens to become a nailing down of marginal plant facilities, without regard to structural suitability (or age). Nor has sufficient consideration been given to the changing character of the locality, whose potentials have been further lessened by a new low in transport and supply efficiency, which has drained the local labor market of skills lured to more progressive and remunerative areas.

Thus the discovery of new economical methods to produce pure water could hardly come at a better time. For, it will revive the spirit of enterprise and adventure, and inject a new dynamism into an area—into our economy.

A Start Was Made In 1875

There has been a steady forward movement toward purifying the water supply since Poughkeepsie, N. Y., installed the first anti-pollution system in 1875. By 1900, the supplies of 2 million persons were protected; today about 125 million persons receive "purified" water. With this development came insistence on reducing industrial water damage to an absolute minimum. Public officials were forced into action. Court judgments against manufacturers have run into the millions of dollars. Many plants have been enjoined from continuing processes which pollute streams, which has resulted in breaking continuity of operation and plant dispersion.

REPORTED WATER SHORTAGES — 1957



Dots indicate water shortage areas.

Today, need for solving the industrial water pollution problem has become very great indeed. It has reached such proportions that a few weeks ago the Department of Health, Education and Welfare instituted a new drive for enforcement of the Federal Water Pollution Act of 1956—a move which holds long-range implications for industries operating along the nation's waterways. Secretary Arthur S. Flemming directed the municipal government of Sioux City, Ia., and 10 meat processing plants to stop discharging untreated waste into the Missouri River. It was the first time H-E-W had used the enforcement policy of the 1956 law against a city or a private industry. Secretary Flemming sounded the ominous warning: "This is but a key step in a broad program aimed at cleaning up the entire Missouri River."

It is obvious that either the plants have to be moved elsewhere, or pay the heavy costs of pollution control in the congested and water-short areas. For example, given a proper water supply, the meat plants could be more efficiently operated in the new-

ly developed areas, and close to the great cattle herds of Texas.

Life Giving Water

In situations where adequate, uninterrupted supplies of water are essential to industrial operation, free-flowing water would be a God-send. The almost limitless supplies envisioned by the conversion program under way, would have a special appeal to *chemical* industries, whose annual use aggregates 1,162 billion gallons; to food and kindred producers, 2,614 billion gallons; primary metals industries, 865 billion gallons; textile mills, 778 billion gallons.

Other lines using more than 500 billion gallons of water each year include *fabricated metal products* and *machinery* other than electrical. Well above the 100 billion gallon annual level will be found *lumber* and *wood products, printing* and *publishing, petroleum* and *coal products, rubber products, leather* and *leather goods, stone, clay* and *glass products; electrical machinery* and *transportation equipment.*

For each of these, water is literally the stream of life. But the tendency to industrial congestion, the zooming human, animal, and industrial consumption, the pollution problem and the unfortunate fact that distribution cannot be equalized has emphasized the importance of the new developments.

An infinite number of interests are involved in the prospect of a new industrial community. It means payroll and purchasing; housing and transportation; bank and other financial services; highways and utilities; population increase and tax revenues; schools, amusements and other cultural advances.

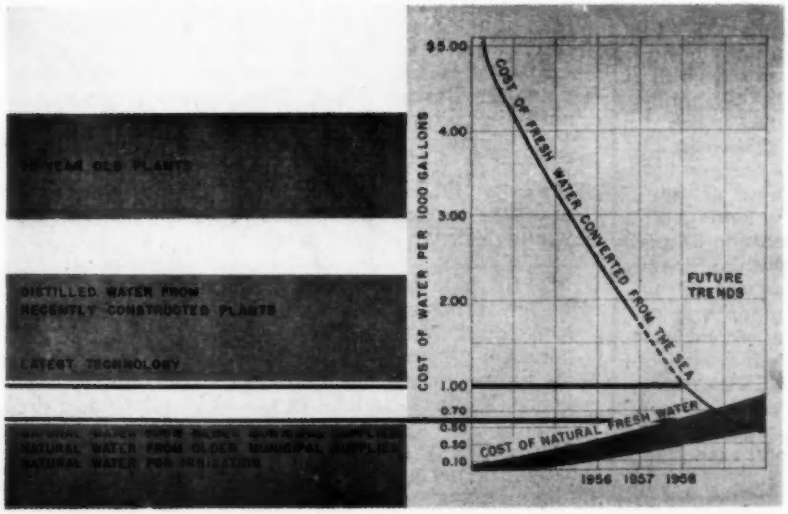
TYPICAL WATER REQUIREMENTS

DOMESTIC	1-toilet flush	7 gals.
	5-minute shower	25 "
	water lawn (1 hour)	300 "
INDUSTRIAL	1-ton acetate	240,000 gals.
	1-ton syn. rubber	660,000 "
	100-bbls. syn. fuel from coal	1,115,000 "
AGRICULTURAL	1-slice of bread	37 gals.
	1-lb. of beef	3,750 "
	1-ton of alfalfa	200,000 "

The Whys and Wherefores of the Huge Water Supply Available

Geologists say there is as much water in the world today as there was a million years ago. Growing populations, plus new industrial uses for water and agriculture's demands have "disturbed the water cycle." The orbit from earth to skies and back again has been "interrupted." Water doesn't get back to us fast enough. The cycle can't be speeded up; *ergo,* new sources must be found—they lie in the seas about us, or in the brackish and highly mineralized sub-surface waters of the west and southwest. They are the only sources known to scientists familiar with the problem. Sea sources are unlimited. *Hundreds of millions of acre-feet of presently unusable waters underlie our western areas. One small section of Texas is known to contain—at easily tapped depths—around 60 million acre-feet of convertible water.* Such conversion, heretofore economically out of reach, is soon to be attainable. Cost will be commensurate with present municipal and other water services.

— COST OF FRESH WATER —
NATURAL VS. CONVERTED SEA WATER



Between 1950 and 1957, while the population increased *12½ per cent,* total fresh water use in this country went up *57 per cent.* We now use 270 billion gallons per day against an estimated daily use of 600 billion gallons by 1980.

Contracts Already Let

The Interior Department is proceeding with plans for five demonstration plants of 1,000,000 gallons-per-day capacity. Preliminary planning contract for the first has been let; contracts for the remainder, at about $2 million per plant, will be let as engineers select key locations about the country. Three of the initial plants will be in coastal areas, two inland for purification of under- *(Please turn to page 246)*

Inside Washington

By "VERITAS"

TELEVISION BUSINESS is facing fundamental alterations which could have the effect of improving service coverage to touch many points not getting full programming now, but also could cut down on the return per invested dollar. The Federal Communications Commission wants to multiply the number of operating outlets from 435 to possibly 2000. This will mean placing stations closer together and dividing the advertising market to fit the new pattern. The Senate's interstate & foreign commerce committee recognizes the need for more stations but would move more slowly. The committee proposes to hold hearings. That inevitably means delay.

WASHINGTON SEES:

Congressional offices report constantly increasing mail from constituents on the subject of spending but there is general agreement that the messages aren't helpful. They ask either that costs of government be reduced, or that they be increased—and the pickup in correspondence on each side is about even. Some ask both that the government spend less and at the same time that it proceed with costly public works, unemployment benefits, and additional Federal aid to localities. Obviously this is impossible.

That there is an articulate economy bloc throughout the country is a fact that has sent the democratic leadership to its pads and pencils. The Defense Department budget is the big problem. It is the largest of them all and it has a greater percentage of fixed charges than most of the others. The leeway for cutting is narrow. But a strategem is developing: an increase of, perhaps, $1 billion is to be made in the Pentagon's missile budget with accent on acceleration of existing programs rather than launching new "crash" procurement; then, abandonment of the plan to find an increase in Army manpower to 900,000. Idea is to put this forward as a combination "adequate defense" and a money-saving gesture. But while the Army is a 900,000 member organization on paper, Ike already has cut it to 870,000; he has said that's large enough for defense. That being so, he wouldn't spend the money, if voted!

SUMMIT MEETING of import-export businessmen, held here under the auspices of the International Chamber of Commerce, found the European Common Market creating the need for new approaches to taxation, quotas, and impediments to the free flow of international commerce. One of the subjects of discussion was the system of pacts which insure against double taxation of the same business incomes. This usually is worked out on the basis of mutuality where each country's interests in the trade of the other is a standoff. But the Common Market presents a case of many countries "pooling" for mutual interest and obviously working well. The subject was too big for decisions, but next year's meeting will take it up.

STATE TAXATION of incomes earned in interstate commerce, legalized in recent decisions by the Supreme Court of the United States, has aroused so much concern that the Senate Small Business Committee has decided to make firm its tentative plan to conduct hearings around the country as a basis for possible offsetting legislation. The first takes place in Boston, Mass. The Senators have taken as their text the dissenting opinion filed by Justice Frankfurter who contended the constitutional theory of free movement of business among the states would be broken down if the decision stands, and that oppressive tax and reporting requirements would follow.

DESPITE ease with which it passed the House, the Keogh-Simpson Bill to permit self-employed persons to set up their own retirement funds and postpone tax payment on "contributions" is considered by no means a certainty to receive Senate concurrence. Persons qualifying would be allowed to defer federal tax on 10 per cent of their income with lifetime ceiling of $50,000 so treated. Withdrawal would be permissible at age of 65, mandatory at 70. Then federal tax would be paid.

As We Go To Press

Ike's Tax Proposals In Limbo — Congress members who spent the Easter recess with ears to the home district ground returned to Washington thoroughly impressed that the citizenry is not in the mood for higher taxes. Whether this will change the free-spending program on which they embarked earlier, is debatable. But on the other hand, paradoxically, it may insure the deficit operation which already had seemed impossible to avoid in Fiscal 1960. Already there are signs that housing, airport, and depressed areas appropriations will come closer to Ike's estimates than first seemed in sight. But the President's budget-balancing additional taxes (gasoline, postage rates, and special services) are bitterly opposed at home, never struck a popular response on Capitol Hill, and seem relegated to the limbo of forgotten enterprises.

The legislaters will vote another year's extension of corporation and excise tax rates and a continued increase in the national debt limit. Neither step is avoidable in the present state of Treasury finances. There will be virtually no fight on continuing the big excises and only a pro forma objection (probably by Senator Byrd) on the debt level. These steps will be delayed until June, just in time to meet the deadline. As of July 1, in the absence of extending legislation, corporation tax would drop from 52 to 47 per cent, and Federal excises on alcoholic beverages, cigarettes, gasoline and automobiles would return to pre-Korean War level. Failure to make the extension would deprive the Treasury of $2.5 billion at a time when the Government faces a deficit of $13 billion.

The debt ceiling situation requires some action within the next several weeks. The temporary $5 billion increase voted last year expires June 30. On that date the permissible ceiling is scheduled to fall back to $283 billion. In his finance message in January, President Eisenhower told Congress the present figure must now be considered a "permanent" base (for purposes of computing) and that a further and additional amount of clearance is essential to take care of anticipated overdraft. Rep. Wilbur Mills, chairman of the tax-writing ways & means committee, intends to ask questions about the need and wisdom of a new and higher permanent ceiling. But he already has the answer: it will be voted by Congress, he predicts. The taxes and the debt limits proposed would be necessary even if Congress failed to increase the Eisenhower budget by a nickel.

Castro's Visit — For all the brutality and justice-junking performance that came in the wake of Fidel Castro's coup in Cuba, the Prime Minister scored heavily in his Washington visit. The bearded one came with no apologies for his past performance and no promise of changed approach to "keeping the peace" in his homeland so long as circumstances require the existing methods, in his opinion alone. He was in the position of making a record that contrasted in his favor when he recited what went on under the Battista Government which he overthrew. He told the nation's leading editors that they had failed to report the facts of Battista and the press associations sidestepped the charge on the plea that they couldn't get the stories out.

►Castro made no attempt to soft-soap the United States. Unlike most other heads of state he came neither with a promise of last-ditch fight to preserve democracy, nor scare-talk that it is up to the democracies to keep communism from getting the upper-hand in Cuba. Castro talked freely of commie infiltration in his country; said they were there on invitation—Battista's presumably. "But we are not communist," was his dismissal of this all-important subject. It was offhanded and given with little apparent concern whether it was accepted as true. The new prime minister made it a point to drop a comment to each lending agency head he met: "We don't want any money." That gave him an advantage few of the other foreign potentates have had. Castro disturbed his listeners through a credo that seemed to run through all his

talks, informal and otherwise: What has majority support is unquestionably right. That principle is not unlike the basic of our constitutional government—in the abstract; but Castro applied it with equal force to "speedy justice."

All-important steel — Businesswise, everything depends on steel this summer. The latest report of the President's Council of Economic Advisers places the prospective Gross National Output at an all-time high, but steel strike of long duration followed by an uneconomic settlement could change everything. That's why Washington economists are iff-ing their forecasts more than usual. The breakdown of the $12 billion GNP increase in the first quarter of this year takes into consideration large-scale buying by steel fabricators against the possibility of a June 30 strike (it accounts for about $2 billion of the rise.) Some general inventory building has been apparent, too; it could account for another $2 billion for storehouse goods, not on customer order. To a degree not readily measurable, this means some cutback in summer buying, whether a steel strike comes or is averted.

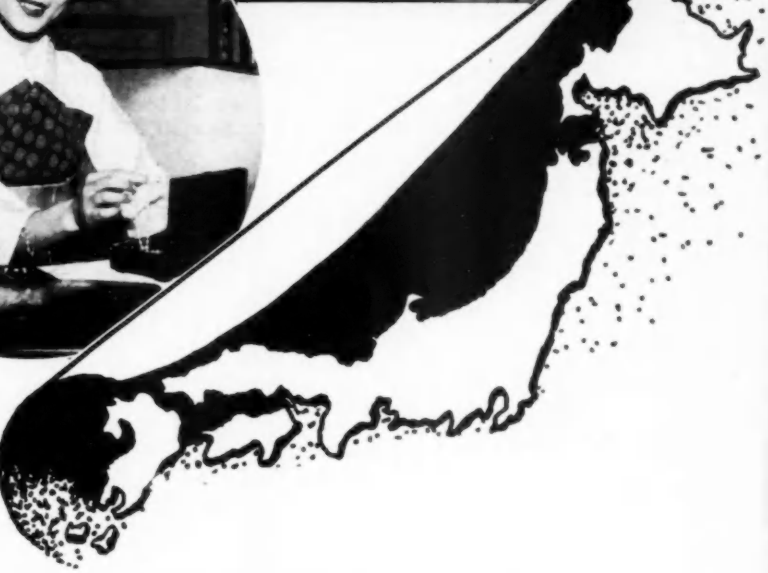
Appointment of Christian Herter as Secretary of State will go a long way toward restoring foreign policy to a bi-partisan basis. If Herter proves an able a diplomat on the foreign scene as he is on the domestic stage, he will be a success. In his favor in that particular is the fact that his most noteworthy achievements, if less publicized ones, were chalked up in other countries. He was born abroad, in Paris. His professional background is the foreign service; he was one of the last contingent of Americans to get out of Germany when the Kaiser moved in 1917. He helped Herbert Hoover direct foreign relief in Germany in 1919. He had been Undersecretary of State since 1947.

Secretary Herter probably is better known as former Governor of Massachusetts and former member of the U. S. House of Representatives. Important in these connections is the fact that he won against the normal democratic tide in the Bay State and when he decided to retire from the House an organized bi-partisan move got underway to persuade him to remain in the office. It has been said that Herter makes friends, but never loses them. The truth of that appraisal was seen in the spontaneous indorsement of his appointment that came from both sides of the aisle in Congress. While Herter's painfully chronic, but not dangerous ailment of arthritis will make him less the world traveler than his predecessor, Dulles, he is on the go more than 90 per cent of his fellow Federal officers. And it is not forgotten that Franklin Delano Roosevelt, much worse off from the standpoint of locomotion, out-traveled both Dulles and Eisenhower.

Herter is soft-spoken, smiling, amiable—and determined. He is regarded more likely to take counsel than to proceed wholly on his own initiative and in this respect he will differ somewhat from John Foster Dulles. In explanation of Dulles' attitude it must be pointed out that he had taken such intimate personal charge and was on such an immediate relationship basis with the other heads of state that a "team" would have cramped his style, probably have done more harm than good. Even if he were disposed to do otherwise, it is doubtful that Herter (or any one else chosen for the post) would have the latitude covered by Dulles. The President has shown increasing interest of late in personal participation. Part of this arises from the experience of the past few years in which he has entertained and come to know more foreign heads of state than most Presidents have met; part of it comes from the encouragement he found in the reception given his first big civilian move for worldwide peace—the atoms use program which he espoused.

►In appraising what kind of a Secretary of State Christian Herter will make, one first must find answer to the query: What kind of Secretary will he be permitted to become? He cannot hope to enjoy the scope or the influence of a John Foster Dulles. Few in our history have been allowed that opportunity. President Eisenhower will associate himself with the diplomatic arm but it is extremely unlikely that he will intrude as, for example, Roosevelt, who moved in and shunted aside every Secretary he appointed. The real danger could be if Secretary Herter is forced into a subordinate, or sharing position and loses his influence as the official spokesman.

日本



SPECTACULAR ECONOMIC RESURGENCE IN JAPAN

By Stewart Hensley

— Shows what an intelligent — hard-working people can accomplish through free enterprise.

JAPAN'S dramatic economic resurgence from the devastation of World War II and the loss of her overseas territories provide an outstanding example of what can be done by an energetic, skilled and astute people operating under a system of relatively free enterprise.

The spectacular post-war recovery of Japan is all the more striking when viewed against the backdrop of economic fumbling and repression which obtains in much of the rest of Asia.

Communist China, endowed with most of the natural resources which Japan lacks, achieves limited economic progress with Soviet aid only at the fantastic human cost of whipping agricultural and industrial workers into new slave-state "communes" to grind the last ounce of energy out of them in the interest of the rigidly controlled state economy.

And India, while paying some lip service to free enterprise, forces its business community to operate under a multitude of government planners and socialistic controls while the goals of the second five-year plan are revised downward.

Free Enterprise Gains

The Japanese government has avoided the imposition of direct controls on the economy and has stayed out of the state trading business. Its influence on the Japanese economy and the country's foreign trade has been a healthy one exercised through the application of sensible credit and other fiscal regulations which have restrained inflation and fostered commerce abroad without which Japan cannot survive.

The measure of Japan's post-war recovery can be appreciated in general terms when one considers that in 1946, after a war which destroyed 30% of her industrial capacity, Japan's Gross National Product was only one-third what it had been in 1936 but by the end of 1951 had climbed back to the pre-war level.

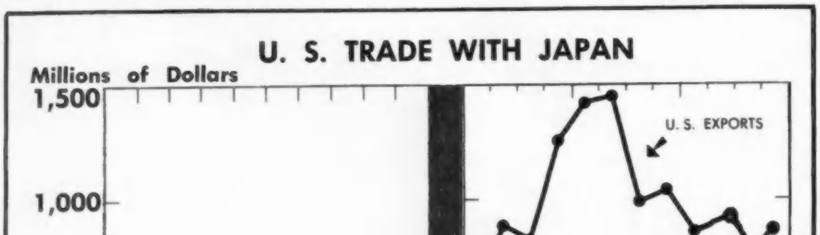
► And at the beginning of 1959, Japan's GNP was nearly 250% of the pre-war level. The 1958 GNP, according to figures just released, was 4% above that for 1957.

The increase in Japan's foreign trade during the past five years has been nothing less than spectacular, despite the unsettling effects of the American recession.

Japan's total exports of $2,871 million in 1958 were an impressive $1,242 million higher than in 1954. Her 1958 exports to the United States during calendar year 1958 were valued at $678 million, compared with $277 million in 1954.

This hefty increase underlines the rising acceptance of many Japanese products by American consumers.

► Japan's real national income, which by the end of the war had fallen to less than 60 per cent of the 1934-36 level, had risen by 1957 to more than 50% above the pre-war level.



JAPAN AS MARKET FOR CERTAIN U. S. PRODUCTS: Japan ranked first in 1957 as a market for U.S. raw cotton, soybeans, iron and steel scrap, copper scrap, hides and skins; second for wheat, barley, phosphate rock, office machinery, and chemical specialities; third for iron and steel, excluding scrap, and refined copper; and fourth for petroleum products and machinery.

► Japan now is the world's leading shipbuilder, the sixth largest producer of crude steel and ranks with France and Italy in total volume of trade.

► In 1958 Japan tied with Britain as the third largest market for American exports, taking about $835 million of U. S. products. In 1957 it had ranked second in this respect, with imports of $1,069,000,000, exceeded only by Canada.

The decline in the 1958 Japanese import figure as compared with 1957 resulted from the application by the Japanese government in May 1957 of credit restrictions on imports which had reached an abnormally high level as a result of an investment boom which stemmed principally from high rate of government investment in roads and public utilities.

But of this, and its implications for the future—more later.

Japan has the largest industrial plant and reservoir of managerial and technical skill in the Far East but she suffers a serious and chronic handicap in the shortage of arable land and the lack of many natural resources.

Underlying Problems

Japan also has an intensifying population problem which aggravates its deficit food position and holds down progress toward greater labor productivity and higher wages. With 93 million people jammed into an area smaller than California, more than half the Japanese live in crowded cities. The remainder derive their living from farming and fishing.

Less than 17% of the land is suitable for cultivation at present, even with great ingenuity and skill, which result in per-acre crop yields among the highest in the world, Japanese farmers can produce only about 80% of the food needs of the country. The remainder must be imported at an annual cost of more than $600 million.

There is coal on Hokkaido and Kyushu, two of the four main Japanese islands, but only 25% of it is coking coal suitable for industrial purposes. Japan has enough chromite, copper, gold, magnesium, silver and zinc for present minimum requirements, but for many of the minerals needed for modern industry, Japan is dependent upon imports.

Iron, petroleum and coking coal are the principal minerals Japan must get from foreign sources for her industry. And she is a big buyer of American raw cotton to supply her humming textile industry.

U. S. raw cotton exports of $180 million to Japan were more than four times the value of all the cotton-textile imports into the American market from that country.

Political Background

A rough idea of the current Japanese political situation is vital to understand the manner in which the country's economic community has been able to make such remarkable progress in the face of enormous difficulties.

Since Japan regained her sovereignty in April 1952, the country has been governed by the conservative elements.

First it was the Liberal Party of Shigeru Yoshida, conservative despite its name, which held the reins of power.

Then, in 1955, the Liberals and the Democrats merged into a new and stronger conservative party which still holds firm control with more than 60 percent of the seats in the Diet (Parliament). The present Prime Minister is Nobusuke Kishi.

The Liberal-Democratic Party, which seems assured of continued control of the government for the foreseeable future, has an attitude of considerable benevolence toward business.

This is understandable when one considers that the party draws its principal support from the more conservative elements of Japanese society, particularly the larger business and financial interests and the rural population.

Japan's Trade by Geographic Areas [1]

	1954	%	1955	%	1956	%	1957	%	1958	%
			(millions of dollars)							
EXPORTS FOB										
Asia	797	49	843	42	1,022	41	1,146	40	1,074	37.4
Europe	146	9	206	10	245	10	327	11	333	11.6
North America	359	21	532	27	651	26	726	25	846	29.5
South America	158	10	149	7	134	5	94	3	112	3.9
Africa	139	8	206	10	393	16	499	17	416	14.5
Australia and Oceania	41	3	76	4	51	2	66	2	90	3.1
Total	1,629	100	2,011	100	2,501	100	2,858	100	2,871	100.0
Of which:										
United States	277	17	449	22	543	22	597	21	678	23.6
Communist China	19	1	28	1	67	3	60	2	51	1.8
Free Asia	778	48	815	41	955	38	1,086	38	849	29.6
IMPORTS CIF [2]										
Asia	737	31	904	37	1,048	32	1,246	29	982	32.4
Europe	193	8	175	8	231	7	392	9	268	8.9
North America	1,102	46	1,021	41	1,434	44	1,979	46	1,357	44.7
South America	177	7	104	4	128	4	122	3	81	2.6
Africa	51	2	63	2	101	3	104	2	84	2.8
Australia and Oceania	139	6	204	8	288	9	441	10	261	8.6
Total	2,399	100	2,471	100	3,230	100	4,284	100	3,033	100.0
Of which:										
United States	847	35	772	31	1,064	33	1,618	38	1,054	34.7
Communist China	41	2	81	3	84	3	80	2	54	1.8
Free Asia	696	29	823	34	964	29	1,166	27	818	26.9
JAPAN'S TRADE DEFICIT										
Total	779		460		729		1,426		162	
United States	570		323		521		1,021		376	

Source: Japanese Ministry of Finance.
1—Figures may not add due to rounding.
2—Japanese import statistics include insurance and freight in addition to the cost of the merchandise, while exports are F.O.B.

It is staunchly committed to free enterprise—as well as the greatest possible political and economic cooperation with the United States.

The Liberal-Democratic Party favors the use of indirect government controls through the judicious use of fiscal regulations to promote economic stability and the expansion of the economy. It shuns direct controls as oppressive.

This conservative party has its internal factions and it is quite possible that Kishi may be supplanted as Prime Minister within the next year by some other member of the party. Among those mentioned most frequently are: Ichiro Kono, a powerful politician who once was Minister for Agriculture and Forestry; Hayato Ikeda, a highly respected financial expert who leads the old Yoshida faction; and Eisaku Sato, present Finance Minister.

However, no matter who leads the party, the consensus is it will retain control of the Japanese government and continue the fiscal policies which are credited with fostering the country's economic success.

The major opposition is the Socialist Party, reunified in 1955 after a split into right and left factions four years earlier. It draws its support from urban labor, middle class intellectuals and small business. The Japanese Socialist Party advocates nationalization of key industries and calls for Japanese "neutrality" between Russia and the United States.

American officials, while publicly maintaining the necessary "impartiality" regarding Japan's politics, privately forecast disaster if the Socialists ever get control of the government.

They believe, however, the Liberal-Democratic group will be able to retain control indefinitely if it is able to continue expanding the country's foreign trade, which is the foundation of its prosperity.

United States Good Will

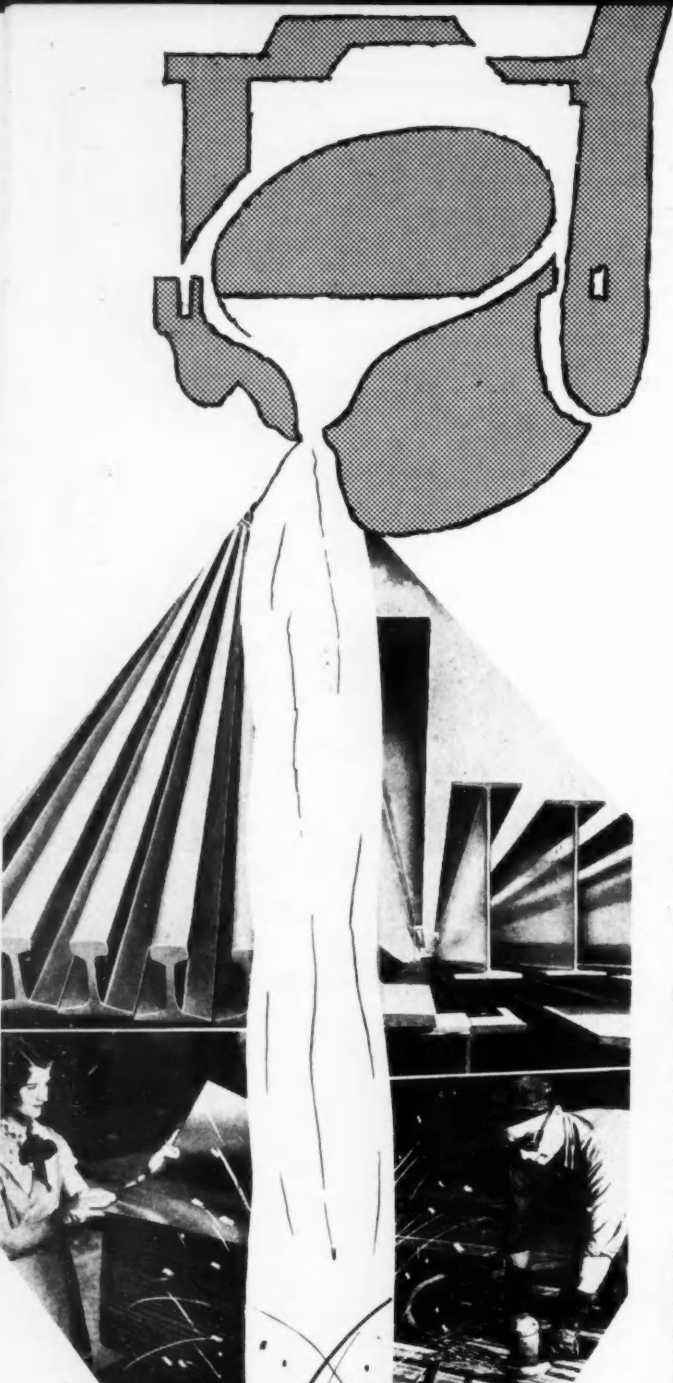
The present U. S. Administration, which describes Japan as "an important bulwark of democracy in the Far East, has made strenuous efforts—as did the Democratic Administration before it—to help Japan re-establish itself in the international community and expand its trade.

These American efforts have taken many forms, including pressure on other countries adhering to the General Agreement on Tariffs and Trade (GATT) to lower or remove barriers against Japanese products.

The U. S. Government also has felt obliged to try to discourage restrictions against Japanese goods in the American market. There have been strong demands here, for instance, for measures to afford greater protection of the American cotton-textile industry against Japanese competition and the Federal Government has intervened with some states to discourage imposition of restrictive measures.

Japan is attempting to expand its export markets in other countries but it feels that it must also be able to rely upon a reasonable share of the United States market to ensure its economic stability and maintain a high level of employment.

The Japanese are alarmed at what they consider increasing protectionist pressures in the United States. They resent charges that their trade practices disrupt established American markets. *(Please turn to page 241)*



A Major Study of the...
STEEL INDUSTRY
Looking to 1960

By H. F. Travis

- ► **Capacity build-up and expansion**
- ► **Factors of strength in dealing with the union**
- ► **Intensified competition from abroad — and from substitute products**
- ► **The position of the steel investor — and earnings-dividend outlook for the individual companies**

THE steel industry has been enjoying an upturn of substantial proportions in new orders. In part this improvement results from a general recovery of business — in autos, appliances, home construction and other lines. Also, the gain in orders has resulted from the fear of a steel strike, which could begin July 1, when the present three-year contract with the United Steelworkers of America expires.

The steel industry is facing the most important wage negotiation since it entered into its first contract with the United Steelworkers in 1937. During the last 22 years, wages have risen steadily. At times, demands of the steel union were resisted, and national strikes occurred. This year, the steel industry feels that the time has come to call a halt on wage-price inflation.

For, while general business conditions are still improving, there are unmistakable warning signals for steel producers. They must get their house in order, or face the loss of important markets for steel, either to foreign steel producers, or to domestic producers of aluminum, cement and plastics.

Several events during the last year have made it plain that the steel industry must attempt, even at the cost of a long strike, to stop the inflationary wage-price rise.

Here are just a few of the danger signals that have been flashing for steel:

1. A bill has been introduced in the Senate by Senator Joseph C. O'Mahoney which would require

Comparative Earnings and Dividend Records of Leading Steel Companies

	Earnings Per Share 1957	Earnings Per Share 1958	Earnings Per Share 1st Quarter 1958	Earnings Per Share 1st Quarter 1959	Dividends Per Share 1958	Dividends Per Share Indicated 1959	Recent Price	Div. Yield	Price Range 1958-59
Acme Steel	$2.16	$1.88	$ .16	$ .67	$1.00	$1.00	29	3.4%	33 -19⅝
Allegheny Ludlum Steel	3.02	1.52	.19	1.18	2.00	2.00	47	4.2	53⅜-30⅛
Armco Steel	4.71	3.82	.75	1.43	3.00	3.00	71	4.2	73⅜-39¾
Bethlehem Steel	4.13	2.91	.52	1.06	2.40	2.40	51	4.7	55¼-36¼
Blaw-Knox Co.	3.99	3.84	.92	1.20	1.25[4]	1.40	43	3.2	46 -23½
Carpenter Steel	8.00[1]	.86[1]	2.00[2]	1.06[2]	2.00	2.00	85	2.3	94 -39½
Colorado Fuel & Iron	4.04	.47	d .45	1.30	.50[4]	[5]	27	—	28¼-18
Copperweld Steel	2.41	1.76	d .14	N.A.	1.00	1.00	43	2.3	48½-19⅛
Crucible Steel	1.73	1.13	.05	.90	.50	.80	28	2.8	32¾-15⅝
Detroit Steel Corp.	.90	.31	d .12	.83	.50	.50	18	2.7	19¾- 9⅛
Eastern Stainless Steel	1.27[6]	1.76[6]	.17[6]	N.A.	.75[6]	.90[6]	28	3.2	31⅞-13½
Granite City Steel	4.64	4.36	.95	1.62	1.60	2.00	60	3.3	66 -28½
Inland Steel *	10.34	8.32	1.40	3.00	4.50	4.80	139	3.2	150½-73
Interlake Iron Corp.	3.08	1.26	.32	N.A.	.90	1.40	28	5.0	29½-18¼
Jones & Laughlin Steel	5.65	2.79	.17	1.97	2.50	2.50	70	3.5	70¼-35
Keystone Steel & Wire	4.52[1]	3.19[1]	1.25[2]	1.80[2]	2.00	2.00	45	4.4	46¾-30
Lukens Steel Co.	10.61	4.38	1.54[3]	1.06[3]	2.00	2.00	88	2.2	104¾-60
National Steel	6.13	4.80	.51	2.20	3.00	3.00	81	3.7	86¾-47⅛
Pittsburgh Steel	1.80	d1.37	d .82	.66	—	—	22	—	28¾-14¼
Republic Steel	5.45	3.96	.55	1.71	3.00	3.00	71	4.2	77⅝-37¾
Sharon Steel	3.68	.20	d .26	.54	.80[4]	1.00	37	2.7	49 -25½
Universal Cyclope Steel	2.50	2.04	.06	1.25[7]	.80	1.00	37	2.7	41¼-19¼
U. S. Steel	7.33	5.13	1.04	1.86	3.00	3.00	93	3.2	99⅞-51⅝
Wheeling Steel	5.32	3.69	.03	N.A.	2.35	2.00	56	3.5	60 -33¼
Youngstown Sheet & Tube	12.35	6.23	1.04	3.33	5.00	5.00	122	4.0	130¾-68½

d—Deficit.
*—Not adjusted for 3 for 1 split which will be effective May 14.
N.A.—Not Available.
1—Year ended June 30.
2—6 mos. ended 12/31/59 and 1958.
3—12 weeks ended 3/22/58 and 3/28/59.
4—Plus stock.
5—Paid 2% stock thus far in 1959.
6—After 2 for 1 stock split.
7—Estimated.

Acme Steel: Forthcoming completion of oxygen steel-making facilities expected to assure adequate source of raw materials and afford operating economies. Rising auto production a favorable factor. **B1**

Allegheny Ludlum Steel: Recovery in demand for stainless and electrical steels brightnes outlook, affording wide coverage for $2 dividend rate. Prospects improving slightly for titanium activities. **B1**

Armco Steel: Upsurge in demand for products in auto, appliance and building industries contributing to more satisfactory results. Pipe division still handicapped by lower activity in petroleum. **A1**

Bethlehem Steel: Reversal in downtrend in capital spending expected to stimulate demand for structural types. Sharp earnings recovery indicated unless prolongued strike develops. **A1**

Blaw-Knox: Recent acquisitions serving steel and construction industries expected to add substantially to earning power. Shipments and earnings expected to improve sharply this year. Ample divdiend coverage. **B1**

Carpenter Steel: Rising demand for stainless and specialty tool steels finds reflection in earnings rebound, which indicates not profit approaching $4 a share for June 30 year, compared with $3.47 in 1957. **B1**

Colorado Fuel & Iron: Benefits of increased volume and operating economies effected last year showing up in earnings, which may approach $4 a share for year and encourage hope of resumption of cash dividends. **C1**

Copperweld Steel: Expansion through acquisitions and development of new products contributing to more satisfactory margins. Plant modernization program permits lower poduction costs. Sharp earnings gain indicated. **C1**

Crucible Steel: Strong competitive position in tool and specialty fields helps recovery in earnings with benefit of increased volume. Continuation of trend should permit another dividend rise this year. **B1**

Detroit Steel: Stronger demand for strip and sheet steel from auto industry stimulating earnings recovery, which has been helped by plant modenization program designed to hold down costs. Higher dividend possible. Operations highly cyclical. **C1**

Eastern Stainless Steel: Increased demand for stainless is contributing to record volume of shipments and prospect of further earnings improvement through remainder of year. Higher dividend for split stock. **B1**

Granite City Steel: Extensive modernization and expansion program nearing completion, along with enlargement of adjacent market area, expected to contribute substantially to growth. Sizable earnings gain indicated this year. **B1**

Inland Steel: Sharp rise in output to new peak for March quarter and dividend increase incident to 3-for-1 split point to one of company's most successful years. Strong competitive position in growing area. **A1**

Interlake Iron: Sharp comeback in steel industry boosts demand for pig iron, of which this company is major supplier for independent mills and auto manufacturers. Adequate margin for increased dividend. **B1**

Jones & Laughlin: Benefits of extensive improvement program showing up in more satisfactory margins. Greater efficiency contributing importantly to earnings recovery. Wide coveage for $2.50 dividend rate. **B1**

Keystone Steel & Wire: Growing demand for wire in industrial and agricultural markets likely to boost earnings for year ending June 30 to $4.25 a share or more, compared with $3.19 in 1958. Dividend at $2 a year secure. **B1**

Lukens Steel: Enlargement of facilities and attainment of greater efficiency contributing to better margins for leading maker of heavy plate specialties. **B1**

National Steel: Increased demand for sheets in motor car industry and high rate of volume in containers point to record shipments this year. Hopes raised for a stock split and dividend increase in 1959. **A1**

Pittsburgh Steel: Although substantial progress in plant modernization has been made, company still is quie marginal. Better demand in auto trade contributing to more satisfactory results. Dividend resumption possible. **C1**

Republic Steel: Heavy expenditures in recent years on now facilities strengthening position and helping to sustain profit margins. Rebound in earnings to level of 1957 regarded as a reasonable expectation. **B1**

Sharon Steel: Encouraging recovery in face of extensive flood damage early in year points to relatively satisfactory showing for this producer. Company eventually may fit into a merger. **C1**

U. S. Steel: Benefits of aggressive modernization efforts showing up in more satisfactory margins. Prospect of earnings recovery suggests more liberal dividend, possibly as result of stock split late this year. **A1**

Universal-Cyclops: Promising outlook for stainless and high alloy steels points to vigorous recovery this year, with expansion opening way for entrance into flat-rolled steel market. Wide coverage for $1 dividend **B1**

Wheeling Steel: Dependence on tinplate and products affected by construction accounts in part for wide fluctiations in volume and earnings. Strong recovery in progress which should carry through 1959. **B1**

Youngstown Sheet & Tube: Enlargement of facilities in prosperous Chicago market helps explain good showing in spite of slackening in demand for pipe in last year or two. Stock regarded as candidate for a split. **A1**

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

companies with $10 million or more in sales, in industries dominated by eight or fewer companies, to give 30 days advance notice of price increases. Such a bill is not likely to be passed, but it reflects the danger of unsound price controls which might be sought if inflation shows signs of getting out of hand.

2. The aluminum industry is holding the line on prices until the end of this year, even if its wage costs go up again this Summer. Aluminum is not yet a serious threat to steel, but in architectural and other applications, it is already taking fairly substantial business away from steel, and it is eyeing closely such big volume steel markets as automobiles and metal cans.

3. The cement industry is another important steel competitor. Reinforced concrete construction has been taking substantial tonnage away from structural steel. Pre-stressed concrete construction is also becoming a serious competitor of structural steel, in highway bridges and other types of construction.

4. Foreign steel producers have been underselling domestic producers by $10 or more a ton, not only on the Atlantic and Pacific coasts, but also in the industralized Midwest area. Opening of the St. Lawrence Seaway has made it possible for foreign steel producers to tap our richest markets, largely because of their considerably lower labor costs and the resultant price differential, under increasingly efficient industrial production methods.

Wide Disparity Between U. S. and Foreign Wages

Average hourly wage earnings of steel workers in Western Europe and Japan range from 66% to 86% below the average hourly earnings of American steel workers.

Employment costs for hourly employees in the U. S. iron and steel industry reached an all-time high last year of $3.51 an hour. Straight time pay averaged $2.79 an hour worked, according to American Iron and Steel Institute statistics. That figure represented an increase of 8 per cent, or 20.5 cents an hour, over 1957. In addition to straight time, substantial supplemental compensation was paid. Sunday and overtime premiums, shift differentials, vacation allotments, pensions, insurance and other fringe benefits added 72 cents an hour to average worker pay.

In West Germany average hourly earnings for steel workers approximated 68 cents an hour on the basis of 1957 statistics, the latest industry figures available. The average in Belgium was about 77 cents, while in the United Kingdom it stood at about 80 cents and in Australia at 99 cents. The lowest, of course, was in Japan, which was 41 cents an hour, or some 86 per cent below the scale in this country. The average hourly rate in the United States in 1957, including supplemental compensation, amounted to $3.22, according to the Institute's statistics.

Even though imports currently represent only a minor proportion of total consumer requirements, quotations by fabricators in Belgium, West Germany, France and Japan exert a pressure on supplies here. Products arriving from abroad in steadily expanding amounts include: concrete reinforcing bars, barbed wire, nails, pipe and tubing, as well

Comprehensive Statistics Comparing

Figures are in million, except where otherwise stated	Allengheny Ludlum Steel	Armco Steel
CAPITALIZATION:		
Long Term Debt (Stated Value)	$ 36.1	$ 107.0
Preferred Stocks (Stated Value)	—	—
No. of Common Shares Outstanding (000)	3,856	14,783
Capitalization	$ 40.0	$ 254.8
Total Surplus	$ 101.4	$ 489.5
INCOME ACCOUNT: Fiscal Year Ended	12/31/58	12/31/58
Net Sales	$ 201.7	$ 867.3
Deprec., Depletion, Amort., etc.	$ 6.7	$ 27.9
Income Taxes	$ 6.1	$ 57.4
Interest Charges, etc.	$ 1.4	$ 3.6
Balance for Common	$ 5.8	$ 57.5
Operating Margin	9.5%	11.9%
Net Profit Margin	2.9%	6.6%
Percent Earned on Invested Capital	5.5%	9.0%
Earned Per Common Share	$ 1.52	$ 3.89
BALANCE SHEET: Fiscal Year Ended	12/31/58	12/31/58
Cash and Marketable Securities	$ 14.8	$ 135.2
Inventories, Net	$ 52.7	$ 230.9
Receivables, Net	$ 18.1	$ 102.1
Current Assets	$ 86.2	$ 467.8
Current Liabilities	$ 23.5	$ 126.9
Working Capital	$ 62.7	$ 340.9
Current Ratio (C. A to C. L.)	3.6	3.6
Fixed Assets	$ 78.0	$ 377.4
Total Assets	$ 166.8	$ 896.9
Cash Assets Per Share	$ 3.84	$ 9.14
Inventories as Percent of Sales	26.1%	26.5%
Inventories as % of Current Assets	61.1%	49.3%

as plain wire. *American manufacturers of automobile parts, farm tools, etc., find that labor costs are sufficiently low abroad so that products made to American specifications can be delivered in New York and other Atlantic ports, at prices lower than actual labor costs for the same items in domestic factories.*

Steel Exports Cut While Imports Rise

Because of these price differentials and the worldwide recession, American steel exports were cut sharply last year. The total declined nearly 50 per cent, from 5.1 million tons to 2.6 million tons. But in the same year, imports rose to 1.7 million, from 1.1 million. *Where American steel mills once shipped as much as 8 per cent of their output overseas, it appears that this year exports will be less than 3 per cent of the total output, and will actually be no larger than imports, for the first time.*

It has been estimated in the industry that half the barbed wire, more than a fifth of nails and 10 per cent of woven wire sold in this country in 1957 originated abroad. Several large shipments of 10,000 to 20,000 tons of steel made in Japan have been arriving this spring in Detroit.

Although current labor undertainties probably represent a temporary factor, so far as investors attempting to appraise steel stocks are concerned,

the Position of Leading Steel Companies

Bethlehem Steel	Colorado Fuel & Iron	Crucible Steel Co. of Amer.	Inland Steel	Jones & Laughlin	National Steel	Republic Steel	U. S. Steel	Wheeling Steel	Youngstown Sheet & Tube
$ 159.8	$ 49.7	$ 23.4	$ 171.4	$ 143.2	$ 112.0	$ 98.1	$ 487.5	$ 39.0	$ 112.2
$ 93.3	$ 9.0	—	—	$ 29.3	—	—	$ 360.2	$ 34.7	—
45,087	3,452	3,793	5,755	7,796	7,463	15,635	53,828	1,936	3,452
$ 794.0	$ 76.0	$ 70.8	$ 281.3	$ 250.7	$ 186.7	$ 254.8	$1,744.9	$ 93.1	$ 223.4
$ 992.5	$ 119.8	$ 71.2	$ 323.4	$ 408.2	$ 380.2	$ 556.8	$1,856.5	$ 144.2	$ 329.9
12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58
$2,005.9	$ 276.1	$ 186.3	$ 655.9	$ 654.0	$ 539.9	$ 910.3	$3,438.6	$ 218.4	$ 499.6
$ 108.6	$ 13.1	$ 9.2	$ 25.9	$ 48.0	$ 39.3	$ 33.0	$ 209.4	$ 14.7	$ 29.6
$ 131.0	$ 2.4	$ 2.4	$ 42.4	$ 18.0	$ 35.0	$ 60.5	$ 285.0	$ 6.9	$ 9.6
$ 6.4	$ 3.0	$ .9	$ 6.1	$ 4.7	$ 3.9	$ 2.6	$ 11.4	$ 1.3	$ 3.6
$ 131.2	$ 1.6	$ 4.2	$ 47.8	$ 21.7	$ 35.8	$ 61.9	$ 276.3	$ 7.1	$ 21.5
12.7%	2.7%	4.1%	14.4%	6.6%	13.2%	13.0%	16.2%	6.7%	7.6%
6.8%	.7%	2.2%	7.3%	3.5%	6.6%	6.7%	8.7%	4.0%	4.3%
8.4%	1.4%	3.6%	11.4%	4.5%	7.8%	8.6%	9.6%	4.4%	4.8%
$ 2.91	$ .47	$ 1.13	$ 8.32	$ 2.79	$ 4.80	$ 3.96	$ 5.13	$ 3.69	$ 6.23
12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58
$ 391.2	$ 10.0	$ 13.9	$ 38.1	$ 62.5	$ 62.8	$ 63.4	$ 507.5	$ 34.3	$ 108.2
$ 434.9	$ 79.7	$ 52.2	$ 131.6	$ 141.5	$ 98.0	$ 222.6	$ 665.3	$ 66.2	$ 128.9
$ 206.4	$ 24.0	$ 18.8	$ 49.9	$ 57.3	$ 61.4	$ 81.6	$ 250.2	$ 16.3	$ 70.6
$1,032.6	$ 113.8	$ 85.7	$ 219.6	$ 261.4	$ 222.4	$ 367.8	$1,423.1	$ 117.7	$ 310.8
$ 332.3	$ 44.8	$ 25.3	$ 73.7	$ 108.3	$ 85.1	$ 121.9	$ 726.8	$ 31.8	$ 83.2
$ 700.3	$ 69.0	$ 60.4	$ 145.9	$ 153.1	$ 137.3	$ 245.9	$ 696.3	$ 85.9	$ 227.6
3.1	2.5	3.3	2.9	2.4	2.6	3.0	2.0	3.7	3.7
$ 920.9	$ 149.0	$ 81.1	$ 444.2	$ 518.4	$ 419.2	$ 517.3	$2,345.1	$ 151.2	$ 282.3
$2,195.0	$ 267.9	$ 170.6	$ 686.2	$ 798.9	$ 687.0	$ 962.9	$4,436.8	$ 280.1	$ 660.1
$ 8.67	$ 2.90	$ 3.66	$ 6.62	$ 8.02	$ 8.42	$ 4.05	$ 9.42	$ 17.71	$ 31.35
21.6%	28.8%	28.0%	20.0%	21.6%	18.1%	24.4%	19.3%	30.3%	25.8%
42.1%	70.0%	60.9%	59.9%	54.1%	44.0%	60.0%	46.7%	56.3%	41.4%

they focus attention on a problem that is becoming increasingly significant for the entire economy—i.e., the wage-price spiral. The steel industry and individual producers are dependent primarily on finding permanent markets for their enlarged capacity. Rigidity of wage costs has compelled managements to adjust productive schedules to consumer requirements. The old fashioned policy of maintaining output in the face of reduced demand, accompanying the adjustment with price cuts to stimulate volume at the expense of competitors, has been abandoned, since mills can no longer lower wages to compensate for narrower margins. Instead, production is curtailed until consumer demand improves, as was the case in 1958, when the industry demonstrated that its break-even point had been sharply reduced with the benefit of improved techniques.

Expansion and Modernization Continues

Further expansion in steel capacity is in prospect. Several top companies are expanding through introduction of modern facilities. A major program is being contemplated by *National Steel,* which proposes to locate a brand new $300 million plant on Lake Michigan near the Chicago area. Steel industry capacity has been increased to some extent in each of the last twelve years, and will be enlarged in 1959. Annual capacity of ingots and steel for castings of 147,633,000 tons represents a rise of 61% over the total capacity in use at the end of World War II.

Productive facilities have been enlarged to a considerable extent by installation of new oxygen furnaces in steelmaking plants, designed to speed the ore-heating cycle. Capacity of oxygen furnaces more than tripled last year to 4 million tons. Open hearth furnaces were enlarged by about 4 millions tons. The two types account for almost seven-eighths of the total annual steel capacity. Electric furnace facilities were enlarged to only a minor extent in 1958.

Through installation of modern equipment, such as the oxygen furnace, the industry has been able to enlarge capacity with considerably smaller outlays of capital than would be required for construction of up-to-date furnaces, and has been able to reduce production costs by acceleration of facilities beyond the time required by older methods. Economies in physical assets, as well as in man hours required in operations have contributed to wider profit margins, and go far toward explaining exceptional earnings improvement in early months this year, when output rose so sharply.

Huge New Capital Investment Ahead

The steel companies face very large capital investment requirements of at *(Please turn to page 232)*

Realistic appraisal of the AUTOMOBILE INDUSTRY for 1959-60

- **Big 3 meeting double competition in home markets — export market problems**
- **Can cost factor between small imports and American Compact-economy cars be ironed out?**
- **Differential in profit margins between traditional and economy cars**
- **American truck market moves ahead**
- **Special study of the earnings - dividend position of the individual companies**

By Walter Untermeyer, Jr. and Harold Fisher

THE Big Three of the auto industry are facing the greatest challenge in their history. Can they successfully meet the vigorous competition which foreign producers are offering with their small imported cars? Can they check the inroads which domestic independents — American Motors and Studebaker-Packard — are making with their compact economy cars in the Big Three's share of the market in the United States?

To stave off this double challenge, General Motors, Ford and Chrysler are preparing to introduce their own compact economy cars this Fall. The appearance of these cars will represent the most important development in the auto industry in many years.

The introduction of the new economy cars should help the Big Three in holding, or increasing their share of the car market. But these new small cars will, at the outset, create almost as many problems as they will solve.

The problems will include such matters as maintaining a balanced product mix among economy cars and higher priced vehicles; preventing profit per unit sold from declining too sharply; and allocating production facilities to new compact cars without dislocating output of the larger and more profitable vehicles.

Car production has risen sharply this year. Consumers have been buying cars during the last month at the average pre-recession pace of 1956 and 1957.

Sharp Production Gains

The automobile industry has been making a full contribution to the general recovery of business. In this first quarter, its production showed a gain

Leading Automotive and Truck Manufacturers

	Earnings Per Share 1957	Earnings Per Share 1958	1st Quarter Earnings Per Share 1958	1st Quarter Earnings Per Share 1959	Dividends Per Share 1958	Dividends Per Share Indicated 1959 *	Recent Price	Div. Yield	Price Range 1958-59
American Motors	$[d]2.12[1]	$4.65[1]	$ .43	$2.10	—	$ .60[4]	39	—	43⅜- 8
Chrysler	13.75	[d]3.88	[d]1.74	1.75	$1.50	1.00	65	1.5	65⅝-44
Ford Motor	5.19	1.75	.55	2.46	2.00	2.40	65	3.6	65¼-37⅜
Fruehauf Trailer	.21	[d] .88	[d] .04	.35	—	—	24	—	25 - 9¼
General Motors	2.98	2.21	.65	1.03	2.00	2.00	50	4.0	52 -33¾
International Harvester	2.88[2]	2.69[2]	.39[3]	[d] .36[3]	2.00	2.00	43	4.6	45⅞-27
Mack Trucks	4.33	3.03	.44	1.37	1.80	1.80	40	4.5	42⅜-21⅝
Studebaker-Packard	[d]1.73	[d]2.15	[d] .98	1.17	—	—	13	—	16 - 2⅞
White Motor	3.33[5]	3.49[5]	.63	1.34	1.50[5]	1.75[5]	49	3.5	50⅜-20¼

[d]—Deficit.
*—Based on latest div. rate.
[1]—Year ended Sept. 30.
[2]—Year ended October 31.
[3]—Quarter ended Jan. 31.
[4]—Initial dividend.
[5]—Adjusted for 100% stock. Div. payable 3/24/59.

Company Ratings

	Rating		Rating		Rating
Amerian Motors	C1	Fruehauf Trailer	C1	Mack Trucks	B2
Chrysler	B1	General Motors	A1	Studebaker-Packard	C1
Ford Motor	B1	Int. Harvester	B1	White Motor	B1

Rating Key: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

[1]—Improved earnings trend.
[2]—Sustained earnings trend.
[3]—Lower earnings trend.

of nearly 30 per cent compared with the same period of last year.

This sharp improvement was accomplished without the aid of the new small or "compact" cars which the Big Three of the industry are preparing for introduction this Fall. In fact, the expected appearance of these new economy cars has probably led some buyers to postpone their purchases until they see how Detroit's new smaller cars measure up, in price, appearance and comfort.

Last year, auto production in the United States dropped to the lowest level in 10 years. The total of only 4.3 million cars was 30 per cent lower than total output of 6.1 million cars in 1957. This unusually severe slump in autos resulted from two main factors: first, the general business recession, which led consumers to adopt a cautious policy with respect to homes, autos, appliances and other "big ticket" items; and second the fact that the industry —or at least the Big Three—was caught completely unprepared for a sudden and dramatic change in public taste, in the direction of more economy and less ostentation in automobiles.

A steadily growing group of potential buyers has felt that the industry's postwar trend towards larger, more powerful and more costly automobiles has been a move in the wrong direction.

As the industry steadily upgraded its cars in size and price, they left a very important vacuum below their lowest price Chevrolet, Ford and Plymouth cars. Into this vacuum, small imported economy cars poured in steadily increasing numbers in 1955, 1956 and 1957. By 1958, the trend had become so pronounced that new domestic economy cars—first Rambler, of American Motors, and later Lark, of Studebaker-Packard—were able to score remarkable gains in volume. The depth of this economy field was demonstrated by the fact that European cars have continued to find a growing market here, in spite of the growth of American Motors to an annual production rate this year of 400,000 cars, and of Studebaker-Packard, to an annual rate of 200,000 cars.

The Small Car Booms

In the first quarter of 1959 therefore, the American consumer was buying small economy cars at the rate of over 1.1 million a year or 20 per cent of the total market. Of this total, European cars accounted for a rate of 500,000, and American Motors and Studebaker-Packard together were accounting for an indicated total of 600,000—if they can maintain this pace.

The compact economy car represents the "big change" in *American car design for the next decade.* It will make its appearance in medium priced cars, soon after the Big Three have introduced their first versions in the lowest priced category, this Fall.

Presumably, the Big Three compact cars will compete quite successfully with imported economy cars, as well as with the entries of the independents; Rambler and Lark. General Motors, Ford and Chrysler have large dealer organizations to help establish the new small cars quickly.

Engineering and styling of the Big Three compact cars are likely to be pleasing to the consumer.

It has become clear by now that a fairly large proportion of car buyers—20 per cent or more—will be customers for American made compact cars by 1960 or 1961. American Motors and Studebaker-Packard together accounted for nearly 10 per cent of car output in the first quarter of 1959. With the entrance of the Big Three into this field, the compact car market should grow steadily in size. George Romney, President of American Motors, forecasts that compact cars will account for one-half of the industry's total volume by 1965. This, however, may

represent an over-enthusiastic appraisal of the small car potential. The American public, has suddenly placed its stamp of approval on small cars; but in a new period of prosperity it could show less enthusiasm for austerity and compactness in cars.

But at the moment, it appears that compact cars will be the most important factor in the automobile indusry's outlook for at least the next few years.

The Profits Outlook

The disconcerting thing about the rise of the compact car is that it leads the auto industry, for the first time in many years, towards the downgrading of its products. The Big Three will have to sell almost two compact cars, to achieve the same dollar volume obtained from the sale of each well-equipped Buick, Mercury or Dodge—medium priced cars which only a few years ago were enjoying steadily rising demand.

In short, the auto industry must contend with the substitution of low priced cars for higher priced cars. This means a smaller net profit per unit sold.

Most of the substitution, in the first phase, during late 1959 and early 1960, will consist of growth of compact cars at the expense of Chevrolet, Ford and Plymouth, although medium priced lines will also be affected. The buyers of the present lowest priced cars, it is assumed, will be the first to be attracted by new economy cars. These will probably bear list prices at least $200 under the present cheapest Big Three car.

In the next phase, however, in 1960 when medium priced car factories offer their own compact cars, the latter will be substituted to a certain extent for larger cars made by Buick, Oldsmobile, Pontiac, Mercury, Edsel, Dodge, De Soto and Chrysler. The compact cars made by the medium priced car factories will be slightly larger, and will be more luxuriously equipped, than the lowest priced compact cars offered later this year by the Big Three and by the independents.

Reduction In Net?

The appearance of the first Big Three compact cars this Fall will mean a lower total profit for the industry, unless the auto market grows as a result of the introduction of a new lower price class. Even if the total market for American-made cars should grow, this factor would not fully offset the reduction in net profit per unit sold, unless the gain in volume is quite substantial.

The Big Three producers are facing a serious challenge from low priced imported cars. The largest selling imports—Volkswagen and Renault—are sold at retail around $1500 to $1700. These low prices are made possible by sharply lower wage rates in European countries. At present, the lowest priced Big Three cars have list prices of about $2200, but are sold by dealers at discounts which make the cost to the consumer as low as $1900.

This means that suggested, or list price on the lowest priced compact cars of the Big Three will have to be at least $200 under the present lowest priced Big Three Chevrolet, Ford or Pontiac. The public will expect such a differential, as a minimum. This points to list prices of between $1900 and $2200, for the new cars. "Discounting" of list prices by dealers will eventually carry the price to the retail buyer down to around $1750 to $1800, although at the outset such prices may not be obtainable.

It seems clear, therefore, that higher wage costs will prevent American producers from meeting the prices of the small European cars. The American car makers will probably say that because cars are slightly larger, and have more horsepower, that they are entitled to a higher price. This is the basis on which Rambler and Studebaker have been successfully competing with lower priced imported cars. But if a price differential of $200 remains, in favor of imported cars, it is likely that they will continue to command a rather large market among economy-minded buyers. The import volume should continue high—possibly as much as 500,000 a year. The strong position of the European import rests not only on price, but on the so-called prestige of a foreign label.

Introduction of the American compact cars, however, should level off the rapid growth of imports. Sales of imported cars have been growing at the rate of over 100,000 a year for the last two years, and the indicated rate of sale in the first quarter of this year is about 500,000, against 380,000 in 1958.

Problem Of Cost Adjustments

American producers will probaby find that production costs on their new compact cars will be only $125 to $150 less than on their present lowest priced cars. But the public will expect a price differential of at least $200 per car.

L.L. Colbert, President of Chrysler is authority for the statement that manufacturing cost per unit on the compact cars will be only $125 less than on the present lowest priced cars of the Big Three. Some costs will have to be absorbed by the manufacturer, to bring the retail price down to a level which will be acceptable to the potential buyer.

The biggest unknown factor is volume. If volume rises rapidly, tooling and other overhead costs per car will be sharply reduced. The producers are doing what they can to reduce production costs by adopting easily produced small aluminum engines, hot air heaters (instead of hot water heaters) and other cheaper parts. But they must produce a quality car, to meet foreign competition, and they are facing an enormous wage differential which operates against them.

Introduction of the Big Three's compact cars this Fall could produce a favorable psychological reaction on the public. For years, Detroit has been under severe criticism for not producing small economy cars. Introduction of such cars may not only silence such criticism, but may give a moderate lift to the entire automobile business. Buyers will feel that they have a wider range of choice, in selecting Big Three cars.

1959 Sales And Outlook

The automobile business this year has staged the first seasonal upturn in sales since 1955. This is an

Comparative Statistics Comparing the Position of Leading Automotive & Rubber Companies*

Figures are in millions, except where otherwise stated	Autos & trucks				Tires & Rubber			
	Chrysler Corp.	Ford Motor	General Motors	International Harvester	Firestone Tire & Rubber	Goodrich (B. F.)	Goodyear Tire & Rubber	U. S. Rubber
CAPITALIZATION:								
Long Term Debt (Stated Value)	$ 250.0	$ 250.0	$ 273.9[1]	$ 100.0	$ 96.5	$ 43.8	$ 236.3	$ 164.6
Preferred Stocks (Stated Value)	—	—	$ 283.5	$ 81.6	$ 2.0	—	—	$ 65.1
No. of Common Shares Outstanding (000)	8,725	12,336	280,530	13,875	8,592	8,978	10,815	5,730
Capitalization	$ 468.1	$ 523.8	$1,030.2	$ 736.6	$ 152.2	$ 133.5	$ 290.4	$ 258.4
Total Surplus	$ 473.1	$1,867.8	$4,262.8	$ 146.2	$ 435.2	$ 269.2	$ 456.8	$ 200.2
INCOME ACCOUNT: Fiscal Year Ended	12/31/58	12/31/58	12/31/58	10/31/58	10/31/58	12/31/58	12/31/58	12/31/58
Net Sales	$2,165.3	$4,130.3	$9,521.9	$1,098.4	$1,061.5	$ 697.2	$1,367.5	$ 870.6
Deprec., Depletion, Amort., etc.	$ 149.0	$ 403.2	$ 420.2	$ 38.9	$ 41.4	$ 21.3	$ 47.4	$ 24.7
Income Taxes	—	$ 66.3	$ 481.8	$ 30.5	$ 53.4	$ 35.1	$ 66.5	$ 26.9
Interest Charges, etc.	$ 9.3	$ 10.0	$ 18.1	$ 3.5	$ 4.5	$ 1.6	$ 9.0	$ 5.6
Balance for Common	$ d 33.8	$ 95.7	$ 620.7	$ 37.2	$ 53.6	$ 35.4	$ 65.7	$ 17.4
Operating Margin	—	3.1%	11.3%	6.6%	10.4%	9.6%	12.9%	6.3%
Net Profit Margin	—	2.3%	6.6½	3.9%	5.0%	5.1%	4.8%	2.5%
Percent Earned on Invested Capital	—	4.4%	12.6%	5.4%	10.9%	9.8%	12.8%	7.6%
Earned Per Common Share *	$ d 3.88	$ 1.75	$ 2.21	$ 2.69	$ 6.24	$ 3.95	$ 6.08	$ 3.05
BALANCE SHEET: Fiscal Year Ended	12/31/58	12/31/58	12/31/58	10/31/58	10/31/58	12/31/58	12/31/58	12/31/58
Cash and Marketable Securities	$ 245.1	$ 451.6	$1,123.2	$ 152.1	$ 45.6	$ 59.7	$ 49.0	$ 54.7
Inventories, Net	$ 298.0	$ 474.3	$1,529.5	$ 321.2	$ 245.2	$ 154.1	$ 309.4	$ 226.6
Receivables, Net	$ 136.3	$ 155.3	$ 585.4	$ 59.5	$ 197.3	$ 132.5	$ 225.7	$ 143.3
Current Assets	$ 756.2	$1,102.5	$3,238.2	$ 554.5	$ 488.2	$ 346.3	$ 584.2	$ 424.7
Current Liabilities	$ 392.2	$ 532.0	$1,139.5	$ 142.7	$ 128.3	$ 94.0	$ 107.1	$ 129.0
Working Capital	$ 364.0	$ 570.5	$2,098.7	$ 411.8	$ 359.9	$ 252.3	$ 477.1	$ 295.7
Current Ratio (C. A. to C. L.)	1.9	2.0	2.8	3.8	3.8	3.6	5.4	3.3
Fixed Assets	$ 547.7	$1,673.3	$2,963.1	$ 330.3	$ 239.0	$ 167.3	$ 317.9	$ 184.9
Total Assets	$1,337.5	$2,962.2	$6,890.8	$1,025.7	$ 738.4	$ 546.8	$ 915.3	6 627.9
Cash Assets Common Per Share	$ 28.08	$ 36.60	$ 4.00	$ 10.96	$ 5.31	$ 6.65	$ 4.53	$ 9.56
Inventories as Percent of Sales	13.7%	11.4%	16.0%	29.2%	23.1%	22.1%	22.6%	26.0%
Inventories as % of Current Assets	39.4%	43.0%	47.2%	57.9%	50.9%	44.5%	52.9%	53.4%

d—Deficit.

[1]—Does not include $56 million notes payab!e foreign subsids.

*—Article on rubber industry starts on page 216

indication that the consumer is again in a buying mood. Sales for April were running at the rate of slightly over 500,000 cars for the month, best total for any month since June 1957. This is nearly 40 per cent better than in the same period of last year, and is well above the pace for January and February.

Production in April ran somewhat ahead of sales, and inventories rose to over 800,000 cars. But if sales can be maintained at the 500,000 car level, such inventories will be no problem, since they represent only one and one-half month's supply, at the April rate of sale. Seasonal cutbacks in production in June, July and August, and the usual shutdown for model changeovers will cut inventories to normal.

If a steel strike should occur this Summer, it would not threaten auto output, since car makers have been laying in sufficient stocks of steel to complete their 1959 model runs, and to carry them over into the 1960 model year for a month or two. But a steel strike could act temporarily as a damper on retail car sales in some areas of the country.

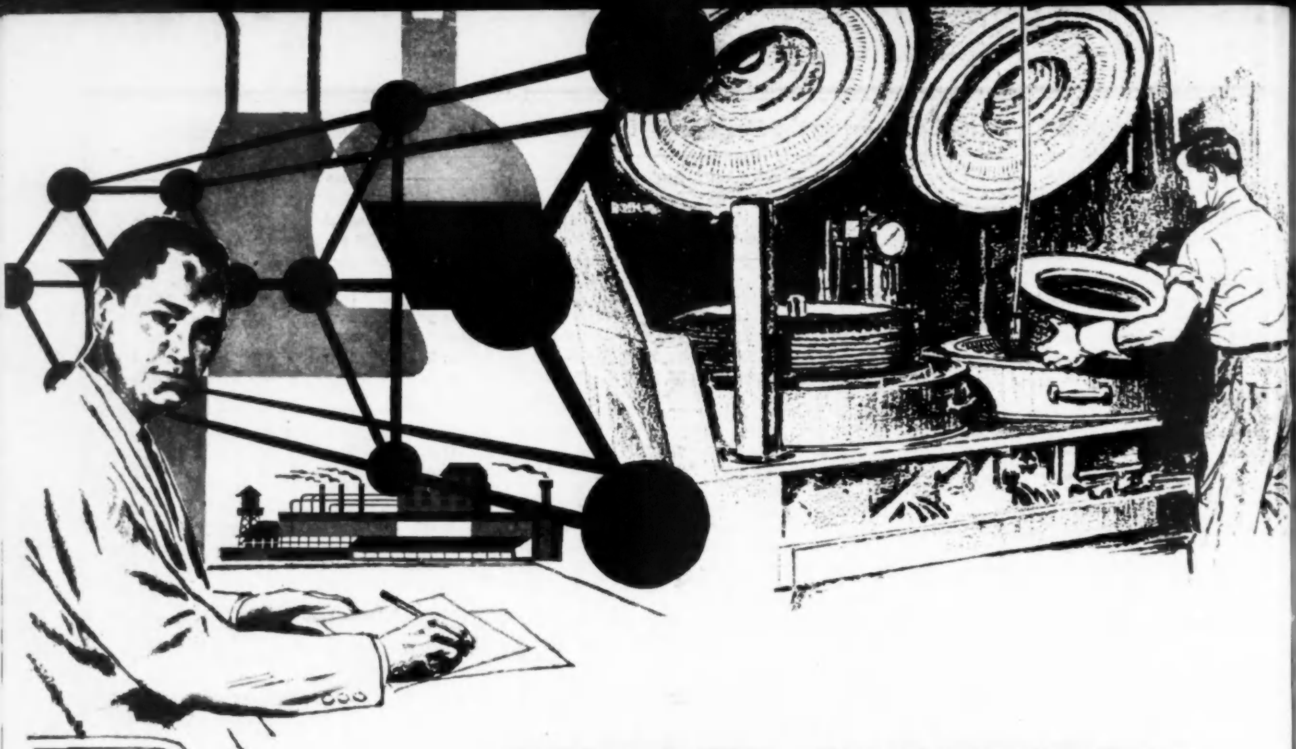
First quarter production of cars totaled 1.6 million, compared with 1,238,000 in the first quarter of 1958. It appears that second quarter output will total over 1.5 million cars, bringing production to the 3.1 million level by July 1. Third quarter output will be sharply reduced, but the fourth quarter should again be up to the 1.5 million level, when dealers will be stocked with new 1960 models, including the new compact cars of the Big Three. Hence, production of close to 5.5 million cars will be possible, if retail deliveries continue to make a good showing. This would represent a gain of over 25 per cent compared with last year's volume.

On such a gain in volume, the major auto producers can show an excellent gain in earnings this year. This has already been demonstrated by reports for the first quarter. **Ford Motor,** for example, on a sales gain of 35 per cent was able to chalk up a net profit of $2.46 a share.

Position of Individual Companies

American Motors has shown uninhibited growth under the exceedingly capable direction of George Romney. Production is booming along at an indicated annual rate of 380,000 units. Company earned $5.66 for the six months ending March 31, 1959 versus $1.25 for the comparable period last year. Earnings for the full year may better the $9.00 mark, after allowing for a tax credit equivalent to approximately $3.00 per share. Working capital seems adequate, at least for the present. As a sign of management's confidence in the future, company has recently announced the resumption of a cash dividend policy, the 60¢ quarterly pay-out being the first since 1954.

American Motors is currently flushed with success, and is showing extraordinary gains in sales and earnings. But they *(Please turn to page 236)*



RUBBER INDUSTRY
Combines Stability With Plenty of Bounce

By MICHAEL CONDON

- **Advent of the new small car—and tire replacement market**
- **The rapid gains in non-tire business from research—packaging for foods—missiles—Urethane Foam, which has spawned a whole new industry**
- **Earnings-dividend outlook for the individual companies**

WILL the advent of the Big Three's small car mean a small tire also, and less volume and profits for the rubber industry? Probably not, if judged by the standards set by the highly successful American Motors' Rambler and Studebaker-Packard Lark. Surprisingly, these two autos use a larger wheel than many of Detroit's present models. In recent years the style conscious manufacturers, in pursuit of the longer, lower silhouette, have lowered the height of their cars by switching from a 15 inch diameter wheel to a 14 inch diameter wheel. However, since the Rambler and Lark do not compete with style inovations they have retained the 15 inch wheel. It seems logical, therefore, that the new small cars produced by the Big Three, which presumably are making an economy rather than style pitch, will also retain the 15 inch wheel.

The change to the 14 inch wheel, which was rather widespread, had no noticeably undesirable effect on the industry per se. It may have actually expanded the market for replacement tire sales. The smaller tire required for the reduced wheel diameter (which means more revolutions per mile), combined with the increased weight and speed of modern cars, has put a terrific strain on tires and greatly increased wear and tear. The loss in mileage in many cases has been as much as 25% to 30%. The shorter life naturally means a replacement is needed more often.

Replacement tire sales normally account for a little more than half of the total number of units sold, and substantially more than half of the profits derived from overall tire sales. It was this proportionately larger profit contribution, combined with a record volume for the year, which was largely responsible for the fine second half recovery of the rubber companies in 1958. Another contributing factor was the pick-up in auto production in the last quarter. Both original equipment and replacement equipment demand has remained strong so

Statistics of Leading Tire & Rubber Companies†

	Earnings Per Share 1957	Earnings Per Share 1958	1st Quarter Earnings Per Share 1958	1st Quarter Earnings Per Share 1959	Dividend Per Share 1958	Dividend Per Share Indicated 1959 *	Recent Price	Div. Yield	Price Range 1958-59
Dayton Rubber	$1.48[1]	$1.18[1]	$ .17[2]	$ .24[2]	$1.40	$1.40	32	4.3%	36½-15½
Firestone Tire & Rubber	7.32[1]	6.24[1]	1.38[2]	1.66[2]	2.60[5]	2.60	143	1.8	151 -82¾
General Tire & Rubber	2.12[3]	2.06[3]	.30[4]	1.17[4]	.70[5]	.70	76½	0.9	74½-22¼
Goodrich (B. F.)	4.40	3.95	.70	1.15	2.20	2.20	90	2.4	91¾-53½
Goodyear Tire & Rubber	6.12	6.08	1.03	(NA)	2.40[5]	2.40	137	1.7	137½-69
Lee Rubber & Tire	2.09[1]	2.12[1]	.33[2]	.42[2]	1.20	1.20	26	4.6	30½-18⅛
Seiberling Rubber	1.75	2.06	d .58	(NA)	.65	.80	20	4.0	23⅞-10⅛
U. S. Rubber	4.27	3.05	.45	1.55	2.00	2.00	58	3.4	58⅞-31½

*—Based on latest div. rate.
†—Comprehensive data on the 4 leading rubber companies appear on page 215.
1—Year ended Oct. 31.
2—Quarter ended Jan. 31.
3—Year ended Nov. 30.
4—Quarter ended Febr. 28.
5—Plus stock.
N.A.—Not available.

Company Ratings

	RATING		RATING
Dayton Rubber Co.	C1	Goodyear Tire & Rubber	A1
Firestone Tire & Rubber	A1	Lee Rubber & Tire	B1
General Tire & Rubber	C1	Seiberling Rubber	B1
Goodrich (B.F.) Co.	A1	U. S. Rubber	B1

RATING KEY: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Lower earnings trend.

far into 1959, and propspects are bright throughout the year and into 1960.

Rapid Gains Of Non-Tire Business

Non-tire operations have demonstrated favorable growth patterns in recent years and so far offer most promising potentials in the foreseeable future.

The mechanical rubber goods outlook is particularly encouraging. New uses and applications are continuously being developed by and for industry. Currently the major industrial uses include conveyor and transmission belting, hoses to transport air, water, chemicals, etc., and a variety of specialized equipment for numerous industries.

This segment of the industry, because it is closely allied with basic industrial activity, naturally follows the ups and downs in the economy. The coming months should produce expanding volume for mechanical rubber as industrial production records further gains.

Dynamic Research Creates New Products And Industries

When it comes to diversification and developing interests in non-allied fields the rubber industry demonstrates no inhibitions whatsoever. Research, and just a healthy interest in profit-making, has broadened many rubber companies activities to include participation in a wide range of products, many unrelated.

One of the major developments to come out of the industry's chemical research labs is urethane foam, which has spawned a whole new industry. First produced on a commercial scale only four years ago, production has expanded sharply. Approximately 38 milion pounds of urethane raw material were produced in 1958 and industry officials indicate volume may go as high as 95 million pounds in 1959. A range of 200 to 300 million pounds of urethane foam is expected to be produced by 1964, an increase ranging from 500% to 800%.

Rapid sales growth is spurred by improved processing techniques, and education as to possible applications which has permitted price cuts of nearly 50%.

Currently more than two-thirds of the top 50 furniture manufacturers use urethane in many of their upholstered lines. The auto industry is well represented and uses the foam for cushioning, insulating and padding in models of the top four companies— and it is also found in the sleek, new jets now being delivered to the airline industry. Other promising areas are in mattresses, protective packaging, and solid fuel missile propellants.

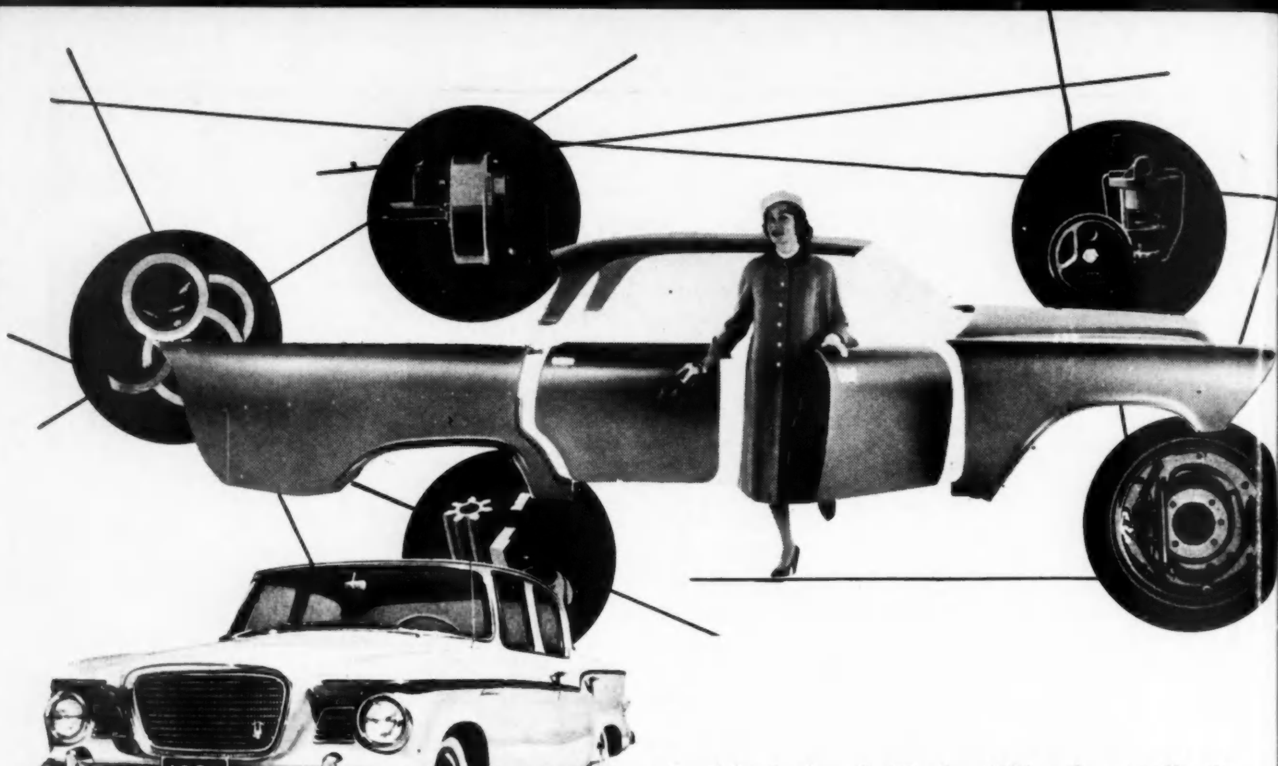
Food Market Beckons

Polyethylene film continues to conquer new markets and may penetrate the lucrative food packaging field. It is odorless, non-toxic, tear resistant, and heat sealable, ideal qualities for the convenience foods so popular today. The film is particularly adaptable as a frozen foods container, and entry into this market would be a major coup for the young product.

The Sky Is No Longer The Limit

The rubber industry plays a major part in the national defense effort, taking a back seat to no one in the importance of its contribution. Its prosaic, but vital production of tires and other rubber products is taken for granted. However, perhaps not realized by the general public, the industry is in an essential position in the development of the missile arsenal and space vehicles.

A chief feature of the break-through in space flight technology was the development of the solid fuel power plant. The rubber industry has made this feasible by developing a rubber compound which will hold the fuel in stable suspension for indefinite periods, permitting the storing of armed missiles, but more im- *(Please turn to page 239)*



1959 Looks like a good year for AUTO PARTS and ACCESSORY MAKERS

By LAWRENCE JACKSON

- **Helped by diversification of products in various fields**
- **A better outlook for auto industry**
- **Varying status for the individual companies . . . those moving strongly ahead — with peak — or better earnings outlook — where static or small improvement indicated**

THE year 1958 was a key one for the auto parts manufacturers, for it demonstrated conclusively that diversification and broader product lines have been successful in moderating the sharp cyclical fluctuations that have beset the industry in the past.

The last time the auto industry suffered a year-to-year decline as precipitous as 1958, was in the unhappy 1937-1938 period, and at that time earnings for the parts makers sank deeply into the red. Last year, by contrast, only two of the thirty major companies in the field actually showed a loss—and only eight (primarily Ford and Chrysler suppliers) were forced to pare their dividends.

Under the circumstances, 1959 should be a good year, for most companies if the auto industry now matches its expectations of turning out almost 5 million cars. But it could be a banner year if the six million car year that has recently become a gleam in the eye of auto industry executives actually comes to pass.

The reasons for this are two-fold: first, all of the factors that helped stabilize operations and profits last year will still be in force; and second, the nature of most parts makers contracts with the auto producers may lead almost to windfall profits.

The last point needs elaboration, since most investors have not had the opportunity to view these contracts at first hand. In essence, the earnings most parts and accessory companies reap from any given year's business depends on how accurate the auto industry is at guessing its output. The contracts are written to include a fair return based on expected volume. If output falls short of anticipations, as in 1958, the parts manufacturers must bear the brunt of higher unit costs. *But* if output exceeds expectations, the added volume is so much gravy—or much higher profit—for the parts industry.

In recent years, the auto industry has chronically overestimated its output, so that the latter has been largely an academic expectation. But this year, for the first time since 1955, there is a fair chance that the car builders may have actually underestimated their market. It is too early yet for a definite prediction on this score, but the possibility exists.

New Patterns

In the long run, however, the impact of wide diversification by most companies in the industry is of far greater significance than the chance of an occasional exceptionally good year. For in the proc-

Comparative Earnings and Dividend Records of Leading Auto Accessory Companies

	Earnings Per Share		Earnings Per Share 1st Quarter		Dividends Per Share					
	1957	1958	1958	1959	1957	1958	Current Annual Div. *	Recent Price	Div. Yield	Price Range 1958-59
Bendix Aviation	$5.44[1]	$4.18[1]	$ .97[4]	$1.02[4]	$2.40	$2.40	2.40	78	3.0%	79¾-44½
Borg-Warner	3.81	2.34	.56	.80[5]	2.40	2.00	2.00	43	4.6	44½-25⅝
Budd Co.	1.91	.33	.15	.94	1.40	1.20	1.00	25	4.0	26¾-13⅜
Champion Spark Plug	2.28	2.56	—	(NA)	—	.75	1.50	40	3.7	40¾-28½
Clevite Corp.	2.08	1.60	.20	.75[5]	1.15	1.15	1.15	35	3.2	35⅛-15¾
Continental Motors	1.09	1.07	.26	.15	.30	.55	.60	13	4.6	13¾- 6
Dana Corp.	5.45[2]	3.86[2]	2.16[6]	3.33[6]	3.00	3.00	3.00	68	4.4	68¾-41¼
Eaton Mfg.	5.77	3.46	1.04	1.80	3.00	3.00	3.00	70	4.2	71½-38¼
Electric Auto-Lite	4.72	1.68	.41	1.25	2.50	1.40	1.20	43	2.7	43⅞-25
Electric Storage Battery	3.44	2.38	.53	(NA)	1.40	1.20	2.00	42	4.7	44 -26¼
Federal-Mogul-Bower Bearings	3.77	3.54	.66	1.22	2.40	2.40	2.40	54	4.4	55¼-32
Houdaille Industries	2.60	1.15	d .22	.001	1.00[8]	1.00[8]	1.00	22	4.5	24 -15⅞
Kelsey-Hayes Co.	6.22[2]	2.47[2]	1.24[6]	1.93[6]	2.40	2.40	2.40	46	5.2	46⅞-25⅛
King-Seeley	2.04[3]	1.90[3]	.92[7]	1.87[7]	2.50	1.37	1.00	34	2.9	35⅞-19½
Libby-Owens-Ford Glass †	2.68	2.05†	.36†	1.64†	1.80	1.80	2.00†	58†	3.4	61 -35¼
Midland-Ross Corp.	6.91	3.29	.41	1.05	.75	3.15	3.00	45	6.6	47 -35¾
Motor Wheel	d .95	d .19	.08	.20	1.60	.70	.60	17	3.5	18⅝-12¾
Rockwell-Standard Corp.	3.20	1.75	.45	.92	2.00[8]	2.00	2.00	38	5.2	38⅝-22⅝
Sheller Mfg. Corp.	2.15	d .32	.01	.35[5]	1.40	.75	.80	19	4.2	20⅝-13½
Smith A. O.) Corp.	4.85[3]	3.47[3]	2.03[7]	2.13[7]	1.45[8]	1.60[8]	1.60	57	2.7	57½-25¾
Stewart-Warner	3.78	3.19	.74	1.08	2.00[8]	2.00[8]	2.00	52	3.8	52½-29
Thompson Ramo Wooldridge	3.90	2.86	.65	.71	1.40	1.40	1.40	63	2.2	73 -41⅜
Timken Roller Bearing	3.89	2.10	.61	(NA)	2.25	2.00	2.00	55	3.6	55⅞-31
Young Spring & Wire	2.79[3]	1.82[3]	1.20[7]	.37[7]	2.00	2.00	2.00	35	5.7	36¾-25½

d—Deficit.
*—Based on latest 1959 rate.
†—2 for 1 stock split subject to stockholders approval 4/21/59.
(NA)—Not available.

1—Year ended Sept. 30.
2—Year ended August 31.
3—Year ended July 31.
4—Fisal quarter ended 12/31/57 and 1958.

5—Estimated.
6—6 months ended Febr. 28.
7—6 months ended Jan. 31.
8—Plus stock.

Bendix Aviation: Well diversified. Earnings for fiscal 1959 should exceed the 1957-58 level. **B1**

Borg-Warner: After two years of difficulties, company should stage a comeback this year. Better days appear ahead. **B1**

Budd Co.: Diversification, larger volume and wider profit margins should increase earnings over last year. **C1**

Champion Spark Plug: Leading producer of spark plugs, with stable and growing replacement market. Larger 1959 volume expected. **B2**

Clevite Corp.: Improvement in original equipment, plus steady demand for replacement parts should lead to good year in 1959. **C1**

Continental Motors: Steady demand for engines, plus better outlook for aircraft subsidiaries promises improved outlook. **C1**

Dana Corp.: Improved auto sales indicates continuing demand for body frames and axles. Earnings should rise will above the $3.86 of fiscal 1958. **B1**

Eaton Mfg: Good auto outlook, added to strong truck market enhances 1959 prospects. $3.00 dividend expected to continue. **B1**

Electric Auto-Lite: As year progresses, prospects appear to be improving. **C1**

Electric Storage Battery: Acquisition of Ray-O-Vac gives company dominant position in dry cell battery field. Good recovery ahead. **B1**

Federal-Mogul-Bower: Good first quarter indicates favorable year for most bearing manufacturers. **B1**

Houdaille Industries: Wide diversification has reduced dependence on auto parts. Outlook for all divisions indicates sharp earnings recovery. **C1**

Kelsey-Hayes: Poor first quarter followed by sharply improved second period. Recovery from 1958 indicated. **C1**

King-Seeley: Diversified to point where auto parts now less than half of sales. Good earnings recovery indicated. **C1**

Libbey-Owens-Ford: Revival of new car demand, especially pick up in GM production implies excellent recovery for principal glass supplier. **A1**

Midland-Ross: Improved outlook for frames and chassis indicates modest recovery. Moves taken to offset loss of Dodge and Plymouth business at end of 1959. **C2**

Motor Wheel: Second largest wheel manufacturer, two years of deficit operations should end in 1959. **C1**

Rockwell-Standard: Outlook for accessories such as bumpers, springs, etc., indicates good earnings recovery. **C1**

Sheller Mfg: Volatile earnings performer. Operations this year point to earnings recovery. **C1**

Smith (A. O.): Better outlook for tubular steel products in addition to enhanced auto frame and parts business promises good earnings improvement. **B1**

Stewart-Warner: Broad diversification held earnings drop within narrow range last year. Good earnings in prospect. **C1**

Thompson Ramo Wooldridge: Better auto outlook will help offset decline in aircraft lines. Modest earnings improvement only. **B2**

Timken Roller Bearing: Good recovery expected this year, with excellent growth ahead. **A1**

Young Spring & Wire: Originally auto springs, output now includes machinery and equipment for other industries. Outook improved. **C1**

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

ess many of the more important companies have become sounder investments as new areas of earning power have been opened up.

The diversification, in fact, has been so widespread that the definition of an auto parts manufacturer has to be stretched pretty far now to include some companies that are traditionally classed within the group. **Bendix Aviation,** for example, now derives less than 15 percent of its revenues from auto parts business, although not many years ago the figure was well over 60 percent.

Today, Bendix is primarily a defense producer specializing in aircraft components and control systems for manned aircraft and missiles. Despite this change in the company's basic business, however, it should be emphasized that Bendix will do over $100 million in auto parts business in 1959 — a figure which still qualifies the company as one of the majors in the industry.

The company's outlook for the current year is clouded by the fact that there has been no earnings progress since 1954 despite a slow, but steady rise in sales. Undoubtedly part of the trouble can be traced to the disruptions usually expected when a company changes the basic character of its business. In addition, two poor auto years, and defense stretchouts in 1957 also took their toll. Nevertheless, enthusiasm for 1959 should be tempered by the company's recent earnings performance.

So far, however, Bendix is on the right track this year. The last quarter of 1958 witnessed a big earnings jump over previous quarters, and in the first quarter of this fiscal year, earnings at $1.02 per share were slightly ahead of the 97¢ scored a year earlier. If auto production soars, and Bendix continues to obtain a large share of defense business 1959 *may* be the year stockholders have been waiting so long for.

In a somewhat similar position is **Thompson Ramo-Wooldridge** (formerly Thompson Products). Thougn still an important producer of auto parts, Thompson is now associated primarily with aircraft, missiles and electronics. In addition, a subsidiary, Space Technology Laboratories, is responsible for the coordination of the Air Forces's entire missile program.

Ironically, despite the de-emphasis of auto parts, a good car year will do much to offset slowdowns in Thompson's aircraft parts division in the current year. Nevertheless, the slowdowns will still make a serious enough dent in business to keep net income well below the record $4.60 earned in 1956. If auto business is good, however, there should be a sharp improvement over the $2.86 earned in 1958.

Comeback For Borg-Warner

Borg-Warner is another of the major companies that has diversified widely. Unlike Bendix and Thompson, however, Borg still derives almost 40 percent of its revenues from auto parts. In recent years the company has had nothing but trouble. Shortly after acquiring its Norge home appliance division, the bottom fell out of the appliance market. Essentially the same thing happened in the oil well industry right after the Byron Jackson division was purchased, and of course everyone knows what happened to airconditioning after Borg bought York.

To make matters worse, however, Ford last year cancelled its transmission contracts when it decided to manufacture these items itself.

With all this behind it, the company now appears ready to begin a recovery move. Appliance business is booming at the moment, and Norge products have received an enthusiastic response from dealers in recent trade shows. In the air conditioning division, contract operations for large scale installations are up 98 per cent over a year ago. Window units and residential heating equipment orders were up 60 percent in the first quarter and engineered product demand was up over 70 percent.

Another new area of growth is the company's Marbon Chemical division, which developed a highly heat resistant plastic known as "Cycolac." In addition to this product's growing popularity for plastic pipe and finished surfaces, Western Electric is using Cycolac exclusively in the manufacture of colored telephones.

In addition, Borg's new non-slip differential now in production for all Rambler cars, and a new fuel injection system, appear to insure the best parts year in a long time for the company. The oil well division will remain slow, but some improvement is expected over last year.

First quarter results bear out Borg's improving prospects. Sales jumped to almost $150 million, from $131 million in last year's first period, and net per share ran ahead 50 percent to 86¢ from 56¢. At the moment, the only dark spot is the threat of a third quarter slowdown because of a steel strike. Otherwise results for the year could be well ahead of the $2.75 earned in 1958.

Comprehensive Statistics Comparing

Figures are in million, except where otherwise stated	Borg Warner
CAPITALIZATION:	
Long Term Debt (Stated Value)	$ 19.1
Preferred Stocks (Stated Value)	$ 15.1
No. of Common Shares Outstanding (000)	8,844
Capitalization	$ 78.8
Total Surplus	$ 254.2
INCOME ACCOUNT: Fiscal Year Ended	12/31/58
Net Sales	$ 533.0
Deprec., Depletion, Amort., etc.	$ 14.7
Income Taxes	$ 24.8
Interest Charges, etc.	—
Balance for Common	$ 20.7
Operating Margin	8.2%
Net Profit Margin	3.9%
Percent Earned on Invested Capital	6.7%
Earned Per Common Share	$ 2.34
BALANCE SHEET: Fiscal Year Ended	12/31/58
Cash and Marketable Securities	$ 71.3
Inventories, Net	$ 107.8
Receivables, Net	$ 80.4
Current Assets	$ 259.6
Current Liabilities	$ 69.2
Working Capital	$ 190.4
Current Ratio (C. A to C. L.)	3.7
Fixed Assets	$ 110.5
Total Assets	$ 399.3
Cash Assets Per Share	$ 8.06
Inventories as Percent of Sales	20.2%
Inventories as % of Current Assets	41.5%

...paring the Position of Leading Auto Accessory Companies

Budd Co.	Eaton Mfg. Co.	Electric Auto-Lite	Electric Storage Battery	Federal-Mogul-Bower Bearings	Libbey-Owens Ford Glass	Rockwell Standard Corp.	Stewart Warner	Thompson Ramo Wooldridge	Timken Roller Bearing
$ 26.7	$ 1.6	$ 25.2	$ 3.2	—	—	—	—	$ 40.9	—
$ 11.4	—	—	—	—	—	—	—	$ 8.1	—
4,346	2,297	1,569	1,662	2,438	5,229	5,223	1,611	3,024	5,327
$ 59.9	$ 6.2	$ 33.1	$ 20.3	$ 12.2	$ 52.3	$ 26.1	$ 8.2	$ 64.2	$ 43.9
$ 88.6	$ 99.5	$ 100.2	$ 60.7	$ 43.7	$ 100.8	$ 89.2	$ 38.3	$ 86.4	$ 97.8
12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58
$ 228.6	$ 197.8	$ 168.9	$ 127.5	$ 98.6	$ 216.9	$ 204.5	$ 91.4	$ 340.6	$ 155.1
$ 7.1	$ 7.3	$ 6.9	$ 3.1	$ 2.7	$ 19.4	$ 9.4	$ 1.5	$ 11.7	$ 5.8
$ 1.2	$ 8.6	$ 2.3	$ 3.5	$ 8.5	$ 31.3	$ 9.8	$ 5.5	$ 9.8	$ 11.6
$ 1.2	$ .3	$ 1.0	$ .2	—	—	—	—	$ 2.3	—
$ 1.4	$ 7.9	$ 2.6	$ 3.9	$ 8.6	$ 21.4	$ 9.1	$ 5.1	$ 8.3	$ 11.1
.5%	8.0%	3.1%	5.6%	17.0%	22.7%	8.8%	11.0%	6.7%%	14.0%
.9%	4.0%	1.5%	3.1%	8.7%	9.9%	4.4%	5.6%	2.6%	7.2%
1.6%	7.6%	2.4%	5.2%	15.4%	14.0%	7.9%	11.0%	8.2%	7.8%
$ .33	$ 3.46	$ 1.68	$ 2.38	$ 3.54	$ 4.10	$ 1.75	$ 3.19	$ 2.86	$ 2.10
12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58	12/31/58
$ 31.4	$ 12.1	$ 29.5	$ 5.8	$ 10.3	$ 37.8	$ 22.6	$ 20.5	$ 13.4	$ 34.3
$ 26.3	$ 33.5	$ 31.0	$ 27.6	$ 22.2	$ 32.0	$ 34.6	$ 17.3	$ 47.1	$ 54.8
$ 26.6	$ 21.2	$ 24.0	$ 22.0	$ 9.9	$ 22.3	$ 21.8	$ 14.5	$ 58.4	$ 16.1
$ 86.9	$ 68.0	$ 85.8	$ 56.0	$ 44.0	$ 92.3	$ 79.1	$ 52.5	$ 119.0	$ 105.3
$ 24.1	$ 23.8	$ 16.5	$ 10.4	$ 7.1	$ 27.0	$ 22.6	$ 15.1	$ 52.8	$ 20.2
$ 62.8	$ 44.2	$ 69.3	$ 45.7	$ 36.9	$ 65.2	$ 56.5	$ 37.4	$ 66.2	$ 85.1
3.6	2.9	5.2	5.4	6.2	3.4	3.5	3.4	2.2	5.2
$ 81.0	$ 59.8	$ 46.1	$ 32.5	$ 18.8	$ 60.0	$ 56.5	$ 11.8	$ 77.6	$ 56.0
$ 174.7	$ 129.6	$ 149.9	$ 89.9	$ 63.0	$ 183.0	$ 137.9	$ 66.8	$ 203.5	$ 167.0
$ 7.24	$ 5.34	$ 18.80	$ 3.50	$ 4.22	$ 7.24	$ 4.32	$ 12.74	$ 4.45	$ 6.44
11.4%	16.9%	18.4%	21.6%	22.5%	14.8%	16.9%	19.0%	13.8%	35.3%
30.2%	49.3%	36.2%	49.2%	50.5%	34.7%	43.8%	33.1%	40.0%	52.1%

Replacement Parts Stay Strong

In general it was the original equipment parts manufacturers who were hardest hit in 1958. Prime examples are Electric Auto-Lite and Kelsey-Hayes. But the companies that supply the large replacement parts market as well, found an effective offset to the decline in new car sales.

The reasons are fairly simple. Today, there are over 60 million registered cars on American roads, and most are receiving more use and harder wear than ever before. Moreover, the two-car family (more common now than ever) usually includes one second-hand model which requires more upkeep expense than the shiny new buggy that takes up the space in an undersized garage.

But perhaps the most important stimulant to replacement parts sales is the high cost of auto mechanic labor. At $5 to $10 an hour in labor costs, it is often far cheaper for the car owner to have a defective part replaced than repaired. Fact is sales of replacement parts are jumping.

Reflecting this growth, the roller bearing makers have grown faster than the auto parts industry generally, and appear headed for even faster growth. Timken's output is still tied closely to new car output, but **Federal-Mogul,** with a greater percentage of replacement business held up very well last year.

Sales slipped to about $100 million from $109 million a year earlier, but the drop hardly dented the exceptional record of sales growth. As a matter of fact, as recently as 1954, total sales were only $37 million and even in the record auto year of 1955 they were only $85 million.

Earnings have been less sensational, but have risen steadily to a peak of $3.77 per share in 1957. By comparison, the drop to $3.54 per share in 1958 is not too significant. Moreover, after the severely depressed first half of 1958, the company operated at record levels and has continued the pattern into 1959. A record year appears in prospect for this soundly financed and well managed company.

Timken Roller Bearing, with sales about double those of Federal is now making a bigger play for the replacement market, a factor that should help stabilize earnings in future auto year declines. Sales and earnings last year were hurt by both the auto slowdown and the virtual standstill in railroad maintenance and building programs. The result was a drop in net to only $2.10 per share and elimination of the 25¢ extra dividend at the end of the year.

In the current year, however, earnings should rebound, as new car production, railway car construction and replacement demand swing into high gear. Moreover, Timken has just completed a large capital expansion program that will undoubtedly produce much more efficient operations and higher profit margins during the new upsurge. Earnings of about $4.00 per share is possible.

Upswing For Original Equipment

Assuming even a moderately good new car year, the present parts contracts should lead to a good year for most original equipment producers. **Libbey-Owens-Ford,** GM's primary *(Please turn to page 245)*

FOR PROFIT AND INCOME

A. T. & T.

A change of 4.13 points in American Telephone shares produces a 1-point change in the Dow industrial average. So Telephone, recently up 14.5 points in four trading sessions before running into a sizable dip, has temporarily been playing a bigger-than-normal role. The excitement stirred by the stock's 3-for-1 split and 10% boost in the dividend, to \$3.30 on the split shares, is subsiding. Some institutional funds that bought it earlier for gains have taken profits. At this writing the issue is on a yield basis of about 3.86%, which is closely in line with average return on public utilities. As utilities go, a good rate of growth in net income of A. T. & T. is assured. As in the past, growth of share earnings will depend decisively on financing policy. There is reason to think that equity dilution over nearby years will be less of a factor than previously — with benefit to earnings. The stock will fluctuate above its past average level, but has had its big play. Long-pull investment holdings should be retained.

Cigarettes

Prosperity in the cigarette business is now being more equally shared among the companies than it was in 1957-1958. The spectacular gain of Lorillard has slowed to a walk, with first-quarter sales up only 9.4% from a year ago, net income up about 10%, per-share profit off about 4% because of equity financing last December. Like "old man river", Reynolds Tobacco continues to roll along. Its year-to-year first-quarter gain was 12.7% in sales, 15.5% in share earnings. Comparable figures for the others are: American Tobacco, 5.7% in sales, 3.4% in earnings; Liggett & Myers, 5% in sales, 18.7% in earnings; Philip Morris, 6.1% in sales, 24.4% in earnings. Sizable, but unexciting, full-year profit gains are indicated for all. If the stocks rise further this year, in no case is appreciation likely to equal that seen in 1958. Reynolds remains the best long-term holding.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1959
Bayuk Cigars	Quar. Mar. 31	\$ .49	\$ .22
Cutler-Hammer, Inc.	Quar. Mar. 31	.88	.74
Florida Power & Lt.	12 mos. Mar. 31	3.54	3.17
Simonds Saw & Steel	Quar. Mar. 31	2.33	.97
Wagner Electric	Quar. Mar. 31	1.57	1.06
Diamond Alkali Co.	Quar. Mar. 31	.76	.30
Thiokol Chemical Corp.	Quar. Mar. 31	.89	.21
Ferro Corp.	Quar. Mar. 31	1.09	.51
Mc Cord Corp.	6 mos. Febr. 28	1.90	.36
Spencer Kellogg & Sons	6 mos. Febr. 28	.74	.18

Splits

So far this year, the number of stocks splits proposed or effected has been far above that in the like periods of the years 1958, 1957 and 1956; and roughly 20% above that in the same period of 1955, in which year the previous record number of splits was recorded. The latter total probably will be exceeded by a goodly margin for 1959 as a whole. The reasons are numerous sharp profit gains, resultant ability to increase cash dividend payments on split shares, and the popularity of splits with stockholders. So far as possible, most corporate managements "aim to please." Hence, quite a few stocks in medium price ranges — say, 40 to 80 — will be split this year, along with the more numerous high-price issues. Some of the many seemingly appropriate candidates for splits without an unduly long wait, although the timing is obviously uncertain in all cases, are: American Home Products, American Machine & Foundry, Firestone Tire, Goodyear, Ingersoll-Rand, Litton Industries, Minneapolis-Honeywell, Minnesota Mining & Mfg., Sherwin-Williams, U. S. Gypsum and Youngstown Sheet & Tube.

Disorderly

Not since pre-crash 1929 have there been so many disorderly gyrations in so many stocks. Characteristic of bull-market excess, that is especially true where split news is involved. In many cases the markup exceeds what could be justified by many years of profit-dividend growth — and is followed soon by sharp reaction. A higher dividend makes a stock actually more valuable in proportion to the amount of the increase. In itself, a split adds nothing to intrinsic value. A pie is the same, whether cut into four slices or eight. A moderate dividend boost by a little-known company gets no great attention, but if it comes with split news, buyers rush in as if gold had suddenly been discovered. How silly can people get?

Case In Point

The Starret (L. S.) Co. makes hand tools and other items used mostly by craftsmen and in metal-working plants. Its peak sales were little over $16 million in 1957, peak profit that year $10.99 a share. There are only 155,502 shares of common stock outstanding. The stock trades in 10-share units on the Big Board, where it should not have been listed in the first place because of the company's small size and light share capitalization. Otherwise, there is nothing wrong with the issue. The profit record is better than average; and no doubt 1959 net will score a good rebound from 1958's reduced $5.80 a share. Recently the stock was dozing along at 70 in a previous 1957-1959 range of 85½-57, on a $3.00 dividend basis. Then the management announced a 4-for-1 split and a dividend boost to $3.20. The stock jumped 23 points to 93 in a single trading session and 32 points or over 44% in three days. Again, how silly can people get?

American Radiator

Some months ago here we noted recovery possibilities — for patient buyers — in American Radiator, then around 13. The wait has indeed required patience, while the stock built up a slow response to improvement in housing activity and the company's earnings. The issue is now around 18. It should work up somewhat above 20, and might eventually approach its modern high of 27⅜ attained in 1955. In the first quarter, profit more than doubled from a year ago to $0.26 a share. It might be something like $1.60-$1.70 a share for 1959, roughly equal to 1956's showing and up from $0.85 in 1958. The $0.60 dividend rate could be raised later on. Because of keener competition in heating and air-conditioning equipment, plumbing equipment and other lines, the company's position is not what it used to be. Peak profit was $2.80 a share as far back as 1950; peak dividends $1.50 in 1951 and a couple of prior years; the stock's peak price 55⅜ in 1929. There is nothing exciting in this picture, but the key fact now is that results are on the upgrade. (The stock is carried in newspaper price tables as American Standard, though the company's name is American Radiator & Standard Sanitary Corp.).

Stock Groups

There are not too many standout stock groups as this is written, but performance is better than average in the case of automobiles and auto parts, chemicals, electrical equipment and home appliances, dairy products, textiles, tires and tobaccos. It is currently somewhat poorer than average in the case of aircrafts, air lines, cement stocks, meat packing, gold mining, machine tools, farm machinery, food stores, movies, domestic crude-oil producers, gas pipeline stocks, sugar, paper and shipbuilding. In some cases, easing amounts to no more than technical dips following recent strength. But it is more than that in others, especially cement stocks, gold mining, crude oil issues, food stores, cane sugar producers, and gas pipelines.

Aircraft

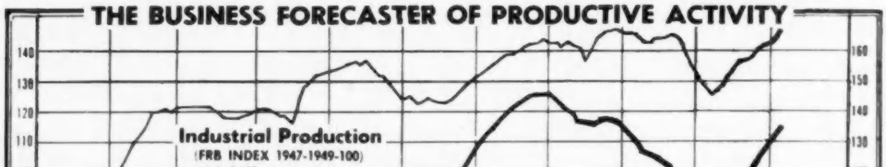
In some cases, "group action" is largely meaningless, amounting to an average of wide divergences. That is emphatically so of the aircraft group. It has remained well under its 1956 high, lagging much behind the market. But some issues have reached new highs this year. Compared

(Please turn to page 248)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
Filtrol Corp.	Quar. Mar. 31	$ .64	$ .69
Monarch Machine Tool	Quar. Mar. 31	.08	.20
Riegel Paper Corp.	Quar. Mar. 31	.37	.61
Union Electric Co.	Quar. Mar. 31	.42	.51
Buffalo Forge Co.	Quar. Febr. 28	.30	.48
Cream of Wheat Corp.	Quar. Mar. 31	.59	.64
Worthington Corp.	Quar. Mar. 31	1.01	1.27
American Export Lines	Quar. Mar. 31	.46	.70
Gamewell Co.	9 mos. Febr. 28	.87	1.85
Arnold Constable Corp.	Year Jan. 31	.99	1.14

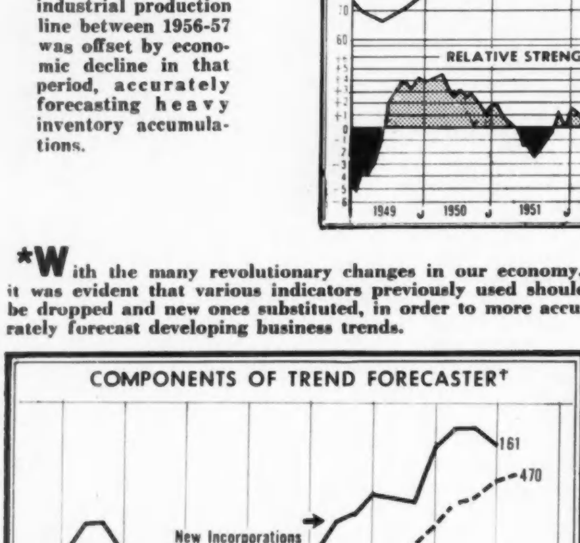
the Business



Business Trend Forecaster*

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.

***W**ith the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F.W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

In the most recent month for which figures are now available, six of the eight component series entering into the Trend Forecaster were in a rising trend.

Nonresidential construction contract awards evidently turned upward during the second quarter, after appropriate seasonal adjustment. Raw industrial commodity prices, after declining in late 1958 and early 1959, have recently strengthened, and stock prices have continued to rise rapidly and steadily. Housing starts and average hours of work in manufacturing industries have fluctuated slightly, at a very high level, and durable goods orders have risen more or less steadily since early 1958, (owing in some measure to the threat of a steel strike in recent months).

Reflecting this still favorable balance of trends, the Relative Strength Measurement stands at +3.5, a level which continues to suggest further expansion in general business activity in the second and third quarters of 1959. A steel strike would, of course, have the effect of postponing some of this foreshadowed strength out of the third quarter and into the fourth quarter.

Analyst

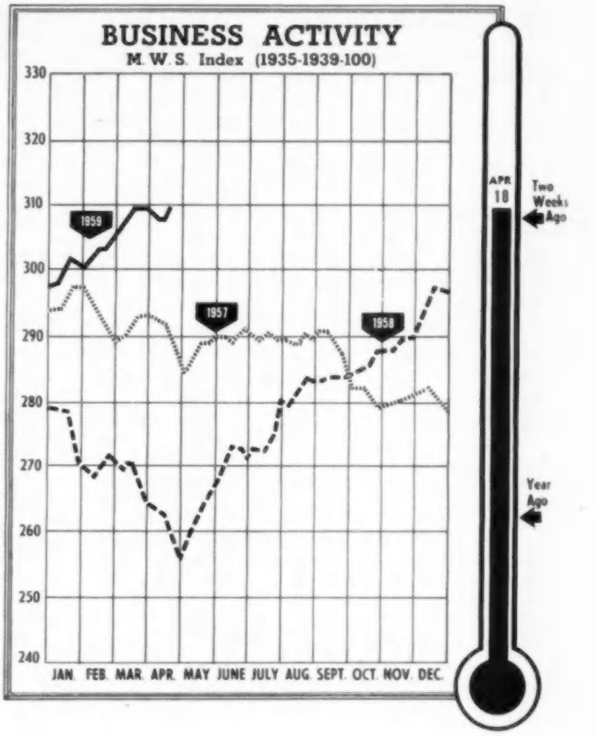
CONCLUSIONS IN BRIEF

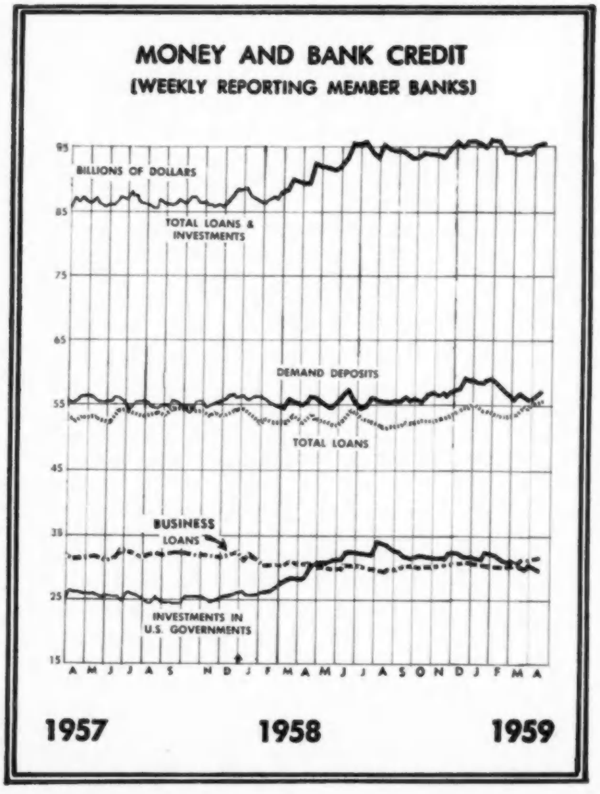
PRODUCTION—continuing to advance, with particular strength in machinery industries, steel, and other raw materials. Gains to continue into late Fall subject to temporary strike interruption. Federal Reserve's index to cross 150-level by June.

TRADE—retail volume continues good, strong Fall season lies ahead. Auto sales enjoying favorable spring pickup, as credit buyers return to market. Appliance, homefurnishing volume satisfactory. Total retail sales to run above $17.5 billion per month into the Fall.

MONEY & CREDIT—growing moderately tighter, interest rates continue in moderate rise. As prices creep up, concern over inflation mounts too, and Federal Reserve policy likely to stiffen further within next two months.

COMMODITIES—rising trend in industrials now notable, although not rapid. With money supply rising and world demand increasing, further strength in primary industrial materials is indicated and an uptrend in wholesale price indexes is now more or less assured into Fall.





EARLY in the second quarter, member banks of the Federal Reserve system were operating with almost no net free reserves — a result of restrictive activities by the monetary authorities, combined with some increase in the demand for funds. By late in April, Treasury bills were being sold at yields well over 3%, and corporate bond yields were creeping above the postwar record levels reached in the fall of 1957. This evidence of tightening in the supply-demand relationship for money now merits a closer look.

Be it noted, at the outset, that Federal Reserve policy toward the provision of funds to the banking system leans heavily upon two sets of statistics: the figures on unemployment, and the figures on consumer price levels. And both of these figures now point to favorable and/or inflationary developments. Unemployment, while admittedly high by standards of earlier postwar years, fell significantly in March, and in all probability has receded further in April. Before the summer is here, the unemployment level may be back in the 3.5 million range, at which point the Federal Reserve's concern over unemployment as a major problem of the national economy may be vitiated somewhat. In other words, conservative, anti-inflationary behavior on the part of the Fed will be immune to criticism on the grounds of excessive unemployment.

By the same token, anti-inflationary activity of the central banking system will gain in favor as it becomes clear that prices—particularly consumer prices—are on the rise again. This is now a clear short-term prospect. Higher farm prices presage a rise in food

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Mar.	147	145	128
Durable Goods Mfr.	1947-'9-100	Mar.	160	156	135
Nondurable Goods Mfr.	1947-'9-100	Mar.	140	139	124
Mining	1947-'9-100	Mar.	123	123	112
RETAIL SALES*	$ Billions	Mar.	17.7	17.6	16.1
Durable Goods	$ Billions	Mar.	5.9	5.9	5.0
Nondurable Goods	$ Billions	Mar.	11.8	11.7	11.1
Dep't Store Sales	1947-'9-100	Mar.	141	139	131
MANUFACTURERS'					
New Orders—Total*	$ Billions	Feb.	29.8	28.5	24.1
Durable Goods	$ Billions	Feb.	14.9	13.9	10.7
Nondurable Goods	$ Billions	Feb.	14.9	14.6	13.4
Shipments*	$ Billions	Feb.	28.5	28.1	25.5
Durable Goods	$ Billions	Feb.	13.8	13.5	12.0
Nondurable Goods	$ Billions	Feb.	14.7	14.6	13.5
BUSINESS INVENTORIES, END MO.*	$ Billions	Feb.	85.9	85.6	89.3
Manufacturers'	$ Billions	Feb.	49.8	49.5	52.4
Wholesalers'	$ Billions	Feb.	11.9	11.9	12.5
Retailers'	$ Billions	Feb.	24.2	24.2	24.3
Dept. Store Stocks	1947-'9-100	Feb.	150	152	146
CONSTRUCTION TOTAL	$ Billions	Mar.	3.8	3.5	3.3
Private	$ Billions	Mar.	2.7	2.5	2.4
Residential	$ Billions	Mar.	1.5	1.4	1.2
All Other	$ Billions	Mar.	1.2	1.1	1.2
Housing Starts*—a	Thousands	Mar.	1390	1320	918
Contract Awards, Residential—b	$ Millions	Mar.	1541	1073	1071
All Other—b	$ Millions	Mar.	1799	1234	1650
EMPLOYMENT					
Total Civilian	Millions	Mar.	63.8	62.7	62.3
Non-Farm	Millions	Mar.	50.8	50.3	49.7
Government	Millions	Mar.	8.1	8.1	7.8
Trade	Millions	Mar.	11.1	11.0	10.9
Factory	Millions	Mar.	12.1	11.9	11.5
Hours Worked	Hours	Mar.	40.1	40.0	38.6
Hourly Earnings	Dollars	Mar.	2.21	2.20	2.11
Weekly Earnings	Dollars	Mar.	88.62	88.00	81.45
PERSONAL INCOME*	$ Billions	Mar.	369	365	349
Wages & Salaries	$ Billions	Mar.	250	245	233
Proprietors' Incomes	$ Billions	Mar.	59	58	57
Interest & Dividends	$ Billions	Mar.	33	32	32
Transfer Payments	$ Billions	Mar.	26	26	25
Farm Income	$ Billions	Mar.	17	17	18
CONSUMER PRICES	1947-'9-100	Mar.	123.7	123.7	123.3
Food	1947-'9-100	Mar.	117.7	118.2	120.8
Clothing	1947-'9-100	Mar.	107.0	106.7	106.8
Housing	1947-'9-100	Mar.	128.7	128.5	127.6
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Mar.	111.6	110.6	106.4
Bank Debits*—g	$ Billions	Mar.	89.4	89.4	77.6
Business Loans Outstanding—c	$ Billions	Mar.	31.2	30.3	30.8
Instalment Credit Extended*	$ Billions	Feb.	3.8	3.8	3.2
Instalment Credit Repaid*	$ Billions	Feb.	3.5	3.4	3.4
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Mar.	8.4	6.6	9.5
Budget Expenditures	$ Billions	Mar.	6.5	6.3	5.7
Defense Expenditures	$ Billions	Mar.	3.9	3.6	3.5
Surplus (Def) cum from 7/1	$ Billions	Mar.	(11.0)	(12.9)	(3.4)

PRESENT POSITION AND OUTLOOK

costs, and prices of non-food consumer goods are clearly strengthening (apparel, shoes, some consumer durables). In addition, service prices continue to rise.

In the next few months, the Fed, as it plans its credit policy, will be watching developing signs of inflationary potentialities. Its behavior is thus very likely to grow more rather than less restrictive, at a time when demand for funds will probably be rising. A somewhat more difficult money market, with somewhat higher rates, is thus a pretty good bet for the summer months.

* * *

IMPORTS—these figures are posing a dramatic new challenge to American economic stability.

For a few months in late 1956 and early 1957, in the days when Suez was closed, American exports climbed briefly above a $24-billion annual rate, and the excess of exports over imports was close to a $12-billion rate. Since then, the gap between exports and imports has been narrowing persistently and often quite rapidly. Exports have been sagging, while imports held their own (even during the 1957-1958 recession) and are now rising. In recent months, the commercial export rate has approached the $15 billion level and imports have run at about $14.4 billion. The American merchandise export surplus, which was one of the dominant stimuli to American business in the postwar years, has almost vanished. In machinery industries, in textiles, in chinaware and silverware, to name just a few, American industry is now being invaded, on a mass scale, by imported goods produced at substantially lower wage levels.

And to compound the present business outlook somewhat further, there is now a substantial amount of idle steel capacity (in England alone, about 6 million tons) available to the American market if a steel strike should hit the domestic industry. Steel producers here are reported fearful of the effects of a strike on stimulating demand for foreign steel.

* * *

PRICES—a mild reversal in the price level is now clearly in progress. Farm prices have definitely weakened, while prices of nonfarm products at the wholesale level are clearly in a moderate uptrend. A large proportion of the subgroups included in the

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 IV Quarter	1958 III Quarter	1958 II Quarter	1957 IV Quarter
GROSS NATIONAL PRODUCT	453.0	439.0	429.0	438.9
Personal Consumption	296.5	291.5	288.3	287.2
Private Domestic Invest.	61.5	53.7	49.2	61.5
Net Foreign Investment	0.2	1.7	1.7	3.3
Government Purchases	94.8	92.0	89.7	86.9
Federal	53.8	52.2	50.7	49.1
State & Local	41.0	39.8	39.0	37.8
PERSONAL INCOME	359.1	357.5	349.8	349.7
Tax & Nontax Payments	43.7	43.5	42.3	43.0
Disposable Income	315.4	314.0	307.5	306.8
Consumption Expenditures	296.5	291.5	288.3	287.2
Personal Saving—d	19.0	22.5	19.2	19.6
CORPORATE PRE-TAX PROFITS	44.0	37.9	32.0	39.9
Corporate Taxes	21.8	19.3	16.3	19.9
Corporate Net Profit	22.2	18.6	15.7	20.0
Dividend Payments	11.8	12.5	12.4	12.0
Retained Earnings	9.8	6.1	3.3	8.0
PLANT & EQUIPMENT OUTLAYS	29.9	29.6	32.4	37.8

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Apr. 18	309.9	227.8	261.7
MWS Index—per capita*	1935-'9-100	Apr. 18	229.1	308.0	196.8
Steel Production	% of Capacity	Apr. 25	94.8	93.8	47.1
Auto and Truck Production	Thousands	Apr. 25	171	173	84
Paperboard Production	Thousand Tons	Apr. 18	323	314	264
Paperboard New Orders	Thousand Tons	Apr. 18	288	297	230
Electric Power Output*	1947-'49-100	Apr. 18	252.0	250.6	220.6
Freight Carloadings	Thousand Cars	Apr. 18	634	618	534
Engineering Constr. Awards	$ Millions	Apr. 23	314	371	326
Department Store Sales	1947-'9-100	Aor. 18	132	130	125
Demand Deposits—c	$ Billions	Apr. 15	57.8	56.7	56.5
Business Failures	Number	Apr. 16	304	337	346

PRESENT POSITION AND OUTLOOK

Bureau of Labor Statistics general wholesale price index, which covers about 2,000 commodities, are now moving up, with especially notable increases in hides, lumber, machinery, and miscellaneous manufactures. To complicate the situation, farm products are now enjoying a seasonal recovery; temporarily, both wings of the price index are advancing, and the total is thus likely to rise to a new record in the next two months. This is not renewed general inflation; but it is creeping cost inflation, and it is hard to stop.

* * *

HOUSING STARTS—after looking a little wobbly in January and February, they turned upward, smartly in March. This may be no more than a statistical vagary; nevertheless, it leaves the starts rate perched at close to 1.4 million annually, which is probably at least moderately above the level of real demand, and at the very least implies an unsustainably rapid improvement in the national housing stock. However, signs of actual distress in the housing market are few and far between. On a national scale, it is hard to find serious troubles for the housing market at the moment although such troubles may develop later on.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958-'59 Range High	1958-'59 Range Low	1959 Apr. 17	1959 Apr.24
300 Combined Average	474.9	283.9	474.9	473.5
4 Agricultural Implements	426.0	196.5	408.6	408.6
3 Air Cond. ('53 Cl.—100)	137.2	87.8	131.1	137.2H
10 Aircraft ('27 Cl.—100)	1338.3	982.2	1338.3	1313.7
7 Airlines ('27 Cl.—100)	1429.4	638.8	1399.4	1339.5
4 Aluminum ('53 Cl.—100)	452.3	253.4	452.3	452.3
5 Amusements	233.3	125.0	233.3	231.4
6 Automobile Accessories	485.7	298.9	481.7	485.7H
6 Automobiles	111.9	40.8	109.0	111.9H
4 Baking ('26 Cl.—100)	41.3	28.5	40.9	40.2
4 Business Machines	1343.3	898.2	1343.3	1330.3
6 Chemicals	774.4	509.5	767.6	774.4H
4 Coal Mining	34.5	18.4	33.9	33.9
4 Communications	203.8	85.7	203.8	198.9
9 Construction	177.4	107.5	172.7	177.4H
7 Containers	1142.6	707.3	1054.8	1021.8
6 Copper Mining	344.6	184.6	330.7	330.7
2 Dairy Products	151.7	115.6	151.7	151.7
6 Department Stores	132.0	78.9	132.0	132.0
5 Drugs-Eth. ('53 Cl.—100)	463.4	217.2	463.4	463.4
6 Elec. Eqp. ('53 Cl.—100)	306.0	195.8	298.0	306.0H
3 Finance Companies	747.2	568.8	704.0	697.7
5 Food Brands	438.1	255.5	422.2	426.2
3 Food Stores	279.6	182.2	268.8	266.1

(Nov. 14, 1936 Cl.—100)	High	Low	Apr. 17	Apr.24
100 High Priced Stocks	293.8	189.7	291.1	293.8H
100 Low Priced Stocks	650.7	334.7	650.7	642.4
5 Gold Mining	962.8	530.5	869.9	895.3
4 Investment Trusts	190.6	144.4	185.1	185.1
3 Liquor ('27 Cl.—100)	1564.6	913.4	1534.5	1504.4
8 Machinery	518.9	343.8	510.0	518.9H
3 Mail Order	326.2	143.3	326.2	323.7
4 Meat Packing	249.6	123.6	243.7	231.9
5 Metal Fabr. ('53 Cl.—100)	207.7	138.1	200.6	200.6
9 Metals, Miscellaneous	409.6	278.3	391.3	384.0
4 Paper	1275.4	841.8	1263.7	1240.3
22 Petroleum	885.5	629.7	868.8	852.1
21 Public Utilities	365.4	258.9	365.4	358.6
6 Railroad Equipment	99.8	59.2	98.9	96.3
20 Railroads	76.7	43.0	75.3	73.9
3 Soft Drinks	651.7	445.6	640.1	651.7H
12 Steel & Iron	419.2	249.3	407.8	411.6
4 Sugar	144.7	102.8	122.6	123.9
2 Sulphur	863.3	543.4	825.1	802.2
11 TV & Electron. ('27 Cl.—100)	89.1	28.8	87.1	89.1H
5 Textiles	211.9	106.9	210.2	211.9H
3 Tires & Rubber	250.4	142.3	247.9	250.4H
5 Tobacco	191.5	110.9	189.8	191.5H
3 Variety Stores	350.9	239.3	247.6	344.4
20 Unclassif'd ('49 Cl.—100)	273.0	145.4	273.0	273.0

H—New High for 1958-1959. R—Revised.

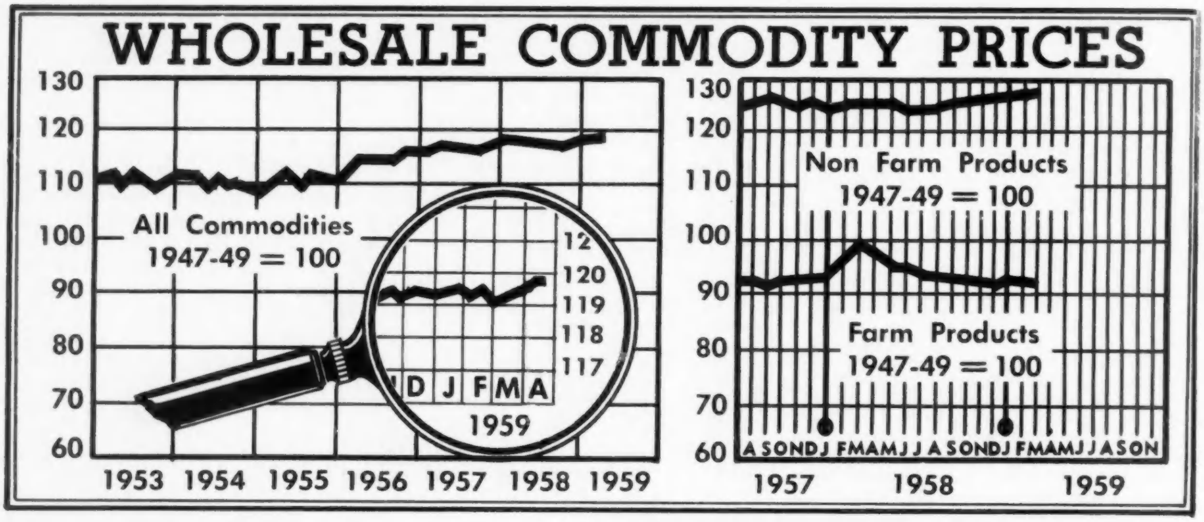
Trend of Commodities

SPOT MARKETS—Sensitive commodities moved higher in the two weeks ending April 24 and the BLS index of 22 such commodities gained 1.1% to approach the highs of last November. The two major components of the index, food products and raw industrial materials, both were higher, with the latter rising 1.1%. In this group, higher prices were registered by lead scrap, rubber, cotton and wool tops, while copper scrap and steel scrap were somewhat lower.

Meanwhile, the BLS comprehensive weekly price index reach a new high in mid-April and held at this peak in the following week. The gain for the fortnight ending April 21 amounted to 0.3%. Farm products led the advance, jumping 1.8%, foods were slightly higher and the index of all other commodities advanced 0.2%, continuing the slow rise that has been going on since last August.

FUTURES MARKETS—Commodity futures were mixed in the two weeks ending April 24, with the Dow-Jones Commodity Futures losing a bare 0.07 points. Higher prices were registered for cotton, wool tops, world sugar, cocoa, coffee, rubber and zinc while wheat, oats, lard, hides and copper were lower. Changes in most cases were small.

Wheat futures receded in the fortnight under review with the old crop May option losing 12 cents, as fears of a shortage of "free" supplies abated and producers sold wheat redeemed from the loan. New crop options also declined, but at a much slower pace, the September future losing 1¼ cents. Reports of good winter wheat prospects and normal downward seasonal pressure contributed to realizing. With prices well under next season's support levels, increased demand can be expected, not far from current levels.



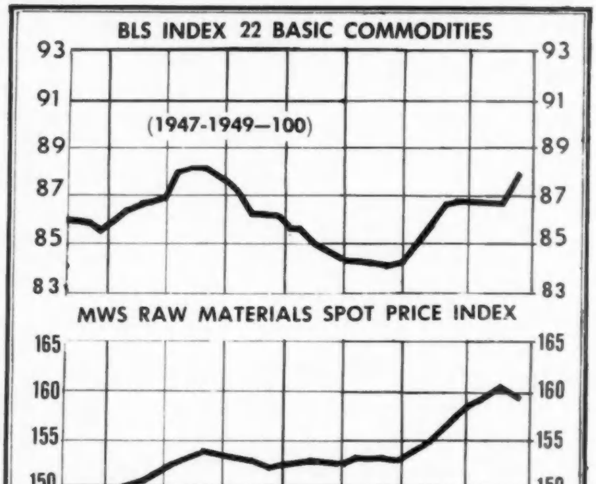
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Apr. 21	119.9	119.5	119.3	60.2
Farm Products	Apr. 21	92.5	90.9	97.7	51.0
Non-Farm Products	Apr. 21	128.1	127.9	125.5	67.0
22 Sensitive Commodities	Apr. 24	87.8	86.8	84.1	53.0
9 Foods	Apr. 24	82.2	81.3	89.9	46.5
13 Raw Ind'l. Materials	Apr. 24	91.7	90.7	80.2	58.3
5 Metals	Apr. 24	93.1	91.9	80.3	54.6
4 Textiles	Apr. 24	79.0	78.1	75.6	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1959	1958	1953	1951	1941
High of Year	160.5	154.1	162.2	215.4	85.7
Low of Year	152.1	146.5	147.9	176.4	74.3
Close of Year		152.1	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1959	1958	1953	1951	1941
High of Year	152.7	159.0	166.8	215.4	84.6
Low of Year	144.2	147.2	153.8	174.8	55.5
Close of Year		147.6	166.5	189.4	84.1



NATIONAL STEEL REPORTS ON 1958 & THE FUTURE

The improvement in general business conditions in the last half of 1958 resulted in the Company's 1958 operations achieving an average rate of 66% of capacity—about 5 percentage points above the average operations of the industry as a whole. Shipments of 3,249,000 tons in 1958 compared with 3,961,000 tons in 1957. Current operations are close to 100% of our present increased capacity of 7,000,000 tons per year. And the near term outlook is promising.

Subsequent to the close of the year, the Company announced a long considered major program of expansion that is of overriding importance to everyone directly associated with National Steel, to the communities where our facilities are located and to users of steel and steel products throughout the nation. The program is this:

A $300,000,000 EXPANSION

Representing a most important step in the Company's long-term development, this new $300 million program, which extends over a three-year period, covers these principal developments:

New expansion at Weirton. The program calls for a further rounding out of the Weirton division's facilities, increasing its capacity for the production of electrolytic tin plate, and increasing the production of cold rolled sheets and improving their processing.

New Detroit-area expansion. Under the program, ingot capacity at Detroit will be increased from 3,700,000 to 4,200,000 tons per year, and a new 80-inch continuous hot strip mill will be installed. It will be the world's fastest and most powerful. With this new "*Mill of the Future*" we will have an elasticity of product specification both as to quality and quantity that will be outstanding in the industry. The additional capacity will enable us to provide for future growth in the Detroit area and at the same time supply initially the needs for hot rolled coils of the new finishing mills near Chicago. Requirements of the new mills will help even out fluctuations that may occur in operations of the Detroit plant.

New Northwestern Indiana plant. The third section of the program calls for the construction of a sheet and tin plate plant, to be operated by our Midwest Steel division, in the Chicago area with an initial capacity in the order of 1,000,000 tons per year. National Steel has a growing list of customers with increasing requirements in the Chicago area which we can serve better from a fully modern plant there. Simultaneously we can release some of the existing capacity at Weirton to serve the increasing demands of customers who are better located for service from that operation.

As Chairman George M. Humphrey and President Thomas E. Millsop have pointed out, the whole $300,000,000 expansion "is in line with our policy of being outstandingly the best in the fields we are in and know so well."

CONTINUED GROWTH IN 1958

New construction, new equipment. Contributing significantly to the overall growth of the Company in 1958, many important projects were completed, including: New sinter plants in operation at both Great Lakes and Weirton, resulting in an increase of more than 20% in the productive capacity of our blast furnaces. The erection of a new building and installation of new slitting equipment and a new color coating line at the Terre Haute, Indiana, plant of Stran-Steel Corporation. The completion and operation of a fourth continuous galvanizing line at Weirton. And the establishment of a new Research and Development Department to conduct a permanent program on a corporation-wide basis.

New products. Among those introduced in 1958: The new GLX-W line of columbium-treated steels that provide strength well above the highest levels of ordinary carbon steel—strength obtainable previously only in alloy grades at greater cost. New types of zinc-coated steels with different surface characteristics and heavier coatings on one side than on the other. And steel buildings in factory-applied color—another National Steel first.

National Steel's performance in 1958 clearly indicates the Company's ability to sustain its record of substantial continuing growth. And now, with the launching of our new expansion program, we are taking a bold step that opens whole new vistas of building further expansive strength into the Company as future opportunities are developed.

1958: A SUMMARY

	1958	1957
Net sales	$539,957,294	$640,967,342
Net earnings	35,827,414	45,518,884
Net earnings per share	4.80	6.13
Total employment costs	182,223,804	198,589,029
Total dividends paid	22,298,906	29,667,767

A copy of our 1958 Annual Report will be sent upon request.

NATIONAL STEEL CORPORATION

GRANT BUILDING — NATIONAL STEEL — PITTSBURGH, PA.

OWNING AND OPERATING—**Great Lakes Steel Corporation • Stran-Steel Corporation • Weirton Steel Company • The Hanna Furnace Corporation • Hanna Iron Ore Company • National Mines Corporation • Midwest Steel Corporation • National Steel Products Company • Enamelstrip Corporation**

Significance of Fresh Industrial Commodity Price Break-Through

(Continued from page 194)

the market places for many months on end.

"Industrial Commodities"

While the BLS wholesale price index has held within a comparatively narrow range over the past year, the BLS index of "industrial commodities" (those other than farm products and processed foods) has risen by approximately 2¼ percent.

This is a somewhat larger than average rise for a twelve-month period.

The Administration watches closely the trend in the industrial commodity price index, and recent increased Washington concern over the inflationary potential in commodity prices stems primarily from the greater than average rise in this index over the past year.

At this stage, however, Washington concern over inflation tends to add fuel to the flames, since it provides official confirmation of what many business men and investors have been long suspecting. Neither the application of "jawbone" control nor tightening of credit is likely to prove efficacious in preventing further price increases in industrial commodities.

To a large extent, manufacturers are powerless in preventing further price increases. The trend of wages continues upward. As industrial production rises, the sharp rise in productivity that characterized the recession period is giving way once more to small productivity gains.

Producers of goods are not able to absorb indefinitely, increased costs of this nature.

Materials Prices Rising

Prices of materials, over which manufacturers exert little or no control, have been rising steadily in recent months. Now that industrial activity abroad is recuperating, too, the upward pace of the materials price rise may well be accelerated.

Materials prices, for the most part, are made in world markets on the basis of world supply and demand conditions. There is little that the United States alone can do to check the rise in materials prices in the face of rising world demand.

During the past year, the price index of a small group of primary industrial materials has registered a rise of 15 percent. With world industrial recovery and consequently demand tending upward, this may be only the beginning of a long materials price uptrend.

Prices of "industrial commodities" are usually stimulated by upward movements in primary materials, although not always to the same extent.

Even allowing for some declines in prices of farm products and food later this year, which are far from being certainties, the prospects are now that the wholesale price level will extend its gains into new high ground.

Resistance Waning

The cost of living, which has been relatively stable for nearly a year as measured by the BLS Consumer Price Index, can be expected to follow any upturns in the wholesale price level.

Higher living costs, as is so well known, inevitably touch off increases in wage scales. And, higher wage scales touch off further increases in living costs. And so on and on.

Thus far, both manufacturers and consumers have exercised a high degree of restraint in their purchases in the face of rising inflationary sentiment. It is problematic whether this state of affairs will continue indefinitely.

Faced with fresh evidence of the shrinking value of the dollar as a result of increases in the wholesale price index and in living costs, the desire to turn money into goods could well develop on a large scale.

Consumer price resistance, a factor of no inconsiderable importance over the past two years or so, is waning, as disposable income extends its rise into new high ground. In the months ahead, as unemployment registers at least seasonal declines, consumer caution is likely to lessen. The general public, it should be noted, tends to measure general economic health by the extent of unemployment, even though economists consider unemployment as only one factor among many.

The stage appears to be set for more than a moderate increase in the general price level.

But, whether the show "goes on" or not is dependent upon a number of factors, including the psychological factor which to a large extent is incapable of measurement.

Why Business in 3rd Quarter Looks Good

Such uncertainty as exists in the minds of many business men and investors over the outlook for general business activity in the second half of this year stems primarily from the possible adverse effects of a steel strike.

Unquestionably, the sharp rise in steel production to a new all-time high — as a result of anticipatory buying — has been a factor in the recent strength of business generally.

However, the importance of steel has been greatly over-emphasized. In the Federal Reserve Board index of industrial production, steel production contributes less than one twentieth.

Historical Effects

Analysis of what has happened in the past indicates that a steel strike, unless very prolonged, would exert only a temporary and comparatively minor adverse effect on business activity.

Steel strikes, it must be remembered. usually are so well heralded that consumers of steel have ample time to build up inventories to tide them over until steel production is resumed. It is not as if steel strikes occurred without advance warning, leaving consumers of the metal high and dry and forced consequently to restrict operations sharply.

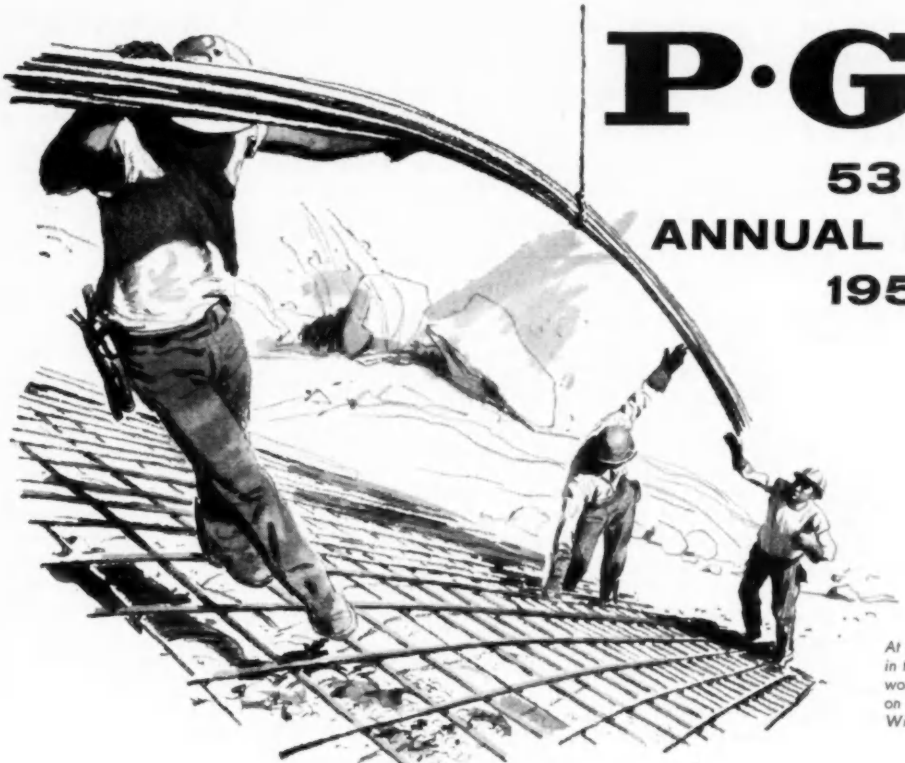
In the past dozen years, there have been three steel strikes, in 1949, in 1952, and in 1956.

Prior to each of these strikes, steel mill activity was stepped up to well above the level of general industrial activity. Then, as now, consumers bought freely in order to build up their inventories.

When the strikes came and production of the metal dropped to a few per cent of capacity, general industry activity was af-

P·G and E·

53rd ANNUAL REPORT 1958



At 6,500 feet elevation in the High Sierra, workmen set reinforcing steel on the face of P.G.& E.'s Wishon Dam

REVENUES AND SALES:

Gross operating revenues from all sources reached an all-time high of $534,778,000 in 1958, an increase of $33,534,000 or 6.7% over the previous year.

Total unit sales of both the Electric and Gas Departments were substantially the same as in the previous year, which on the surface might appear to indicate that the business recession had a material impact on the Company's business. The fact is, however, that sales in both departments were severely restricted by climatic conditions. Under normal climatic conditions both departments would have shown satisfactory overall gains in sales.

NET EARNINGS:

Net earnings available for the common stock amounted to $66,974,000, or $8,690,000 greater than in the previous year. These earnings were equivalent to $3.83 a share based on an average of 17,502,415 shares outstanding during the year. This compares with earnings of $3.41 a share based on the average number of shares outstanding in the previous year.

DIVIDENDS:

The Board of Directors on December 17, 1958 increased the quarterly dividend rate on the common stock from 60 to 65 cents a share. While applicable to the last quarter of the year, the first dividend at the new rate was not paid until Jan. 15, 1959.

CONSTRUCTION:

Late in 1958 the two billionth dollar was spent on the Company's postwar program of expansion, and it is expected that about $156 million will be spent for this purpose in 1959. The proceeds from securities sold to date to finance this program—bonds, preferred and common stocks — have amounted to almost $1.4 billion.

The principal feature of our construction activities in 1958 was the completion of 685,500 kilowatts of electric generating capacity, consisting of both steam and hydro units. Our installed electric generating capacity now totals 5,219,000 kilowatts in 76 plants.

GAS SUPPLY:

In 1958 approximately 72% of our total natural gas supply originated from out-of-state sources, principally from fields in Texas and New Mexico.

With a view to obtaining an independently controlled natural gas supply, the Company is continuing its efforts to obtain a permit through its wholly-owned subsidiary, Alberta and Southern Gas Company, Ltd., to export natural gas from the Province of Alberta in Canada.

NUCLEAR POWER:

Much progress was made during the year toward the goal of producing nuclear power at a cost competitive with conventional plants. The Company has been actively engaged in this field since 1951, and is now engaged in more nuclear projects than any other electric utility.

While the Company will undoubtedly continue to build conventional electric generating plants for many years to come, recent advances in reactor technology suggests the possibility that competitive nuclear power plants will become a reality much sooner than was thought likely only a few years ago. The Company intends to stay in the forefront of developments in this field.

OUTLOOK:

Taking a realistic view of the future, it must be recognized that the Company's well-being as a business enterprise will depend largely upon the wisdom with which governmental policies are formulated and administered. Policies calculated to encourage further encroachment by governmental agencies into the commercial power business, or policies that would result in further inflation and erosion of the purchasing power of the dollar, would be harmful not only to investors but to our customers and employees as well. Stockholders are urged to take a strong stand against any such policies and to make their views known to their elected representatives.

FOR THE BOARD OF DIRECTORS

Chairman of the Board — *President*

N. R. Sutherland

PACIFIC GAS and ELECTRIC COMPANY

245 MARKET STREET, SAN FRANCISCO 6, CALIFORNIA

For more information on this dynamic company write K. C. Christensen, Vice President and Treasurer, 245 Market St., San Francisco 6, for P. G. & E.'s 1958 Annual Report.

fected to only a very minor extent. Sufficient inventories were available to enable producers of durable goods to maintain high levels of production.

Once the strikes were ended, steel mill activity bounced back quickly, surpassing pre-strike highs, within a few months. And, meanwhile, general industry activity forged ahead to new all-time-levels.

There has been considerable belief of late that, in the event of a steel strike, production would be very slow in recovering. It has been maintained that many consumers of steel will be so well stocked that they will be able to draw on inventories and defer new purchases of steel for several months.

There is absolutely nothing in the historical records to indicate the possibility of such a development. With industrial activity and consumption of steel rising, users are not able to build up extremely large inventories. If a strike occurs, many users will be scraping the bottom of their supplies by the time it is ended.

But If No Strike

The possibility can not be excluded that there will be no steel strike.

In this event, steel mill activity could be expected to drop back a little, but not sufficiently to result in more than a very temporary adverse effect on general business activity. Steel production, as noted previously, does not count for very much in total industrial output. *A 20 percent decline in steel mill activity, for example, would tend to lower the FRB index of industrial production by less than one percent.*

Users, it should be noted, are using a lot of steel.

It is interesting to note that Woodlief Thomas, economic adviser to the Board of Governors of the Federal Reserve System, also sees little threat to the general business upturn, steel strike or no steel strike.

Speaking in New York on April 23 to a conference of the American Statistical Association, Mr. Thomas said "Except for some temporary aberrations that can be attributed to the threat of a steel strike, and then either to its occurrence or to the inventory adjustment that will accompany the failure of a strike to occur, it is my view that the economy will experience moderate growth for at least a year".

END

A Major Study Of The Steel Industry Looking To 1960

(Continued from page 211)

least $1.5 billion a year over the next ten years. These arise not only out of the need for obtaining ore reserves and building new steel capacity, but also for the modernization and replacement of old mills. Existing depreciation allowances do not permit the industry to set aside sufficient funds to take care of replacement of facilities. This situation arises from the long-term effects of inflation which are felt particularly keenly in those industries where capital assets have a long life-cycle.

A steel company, for example, which spent $10 million for an open hearth furnace twenty years ago would have to spend as much as $60 million to replace this facility today. Hence, equity and/or bond financing will have to be used extensively and a large proportion of earnings plowed back into the business.

Reserve Capacity

The steels, it is true, have increased their ingot capacity somewhat more rapidly than has been proven necessary. *Present capacity—over 147 million tons of ingots a year—is 30 million tons in excess of the best previous year's output.*

But the time may be not too far off when the industry will be able to use this increased capacity, at least for certain seasonal peaks. This year, for example, the industry's reserve capacity is proving its value as consumers rush to build inventories as protection against a steel strike. In this way, the industry is putting itself in a stronger position to bargain with the steel union.

Next year, if capital goods industries stage a recovery, and thus add to the demand for steel, it is possible that total demand could move up a bit from this year's indicated total of 110 to 115 million tons.

Need For A Firm Stand in Labor Negotiations

The steel industry is strong, with rich reserves of ore, coal and limestone, but as fast as it improved productivity with large investments, wages were boosted. Thus employment costs last year accounted for 38½ cents of each sales dollar, whereas foreign employment costs account for less than 28 cents of each sales dollar. *Despite the $11 billion in new plants since 1946, the percentage of the sales dollar which goes to labor costs, has not been reduced.*

Hence, the steel industry has resolved to take a firm stand in the negotiations with the steel union this year. It has offered the union a one year freeze of present wages. This offer the union has rejected. The steel companies argue that wages in the steel industry have risen much faster than the cost of living. They say that the gains of the steel workers have outstripped those of other unions by a substantial margin. The steel union cannot argue that it must have a wage rise to "catch up" with other unions.

But there is grave danger that the steel union will not accept such arguments. It is determined if necessary to use its economic power — meaning the right to strike—to obtain another round of wage gains. The union is talking about broad wage and fringe gains which would add up to $1 billion a year.

How Badly Will a Strike Hurt?

Because of the fear of a strike, steel users during May and June will continue to add to their steel inventories at the rate of over 2 million tons a month. By June 30 steel inventories will total 20 million tons, against 12 million tons at the beginning of the year.

This means that if a strike is avoided, through a last minute settlement, steel operations could decline sharply in the third quarter. The average rate for that quarter could go as low as 60 per cent, compared with an indicated second quarter average of 90 percent.

The steel industry, or at least the major low cost producers comprising the Big Ten of the industry have shown ability to operate at a fair margin of profit at 60 per cent of capacity. So *if*

a strike is avoided, reports for the third quarter should not be too bad. Moreover, after a dull July or August, business should pick up approaching the Fall, and the fourth quarter should see operations back to about 75 per cent of capacity.

If a strike occurs, only ten per cent of the steel plants,—those which are unorganized by the union—will remain in production. The strike will have to last around six weeks to use up the inventories which have been built up since Jan. 1.

In the event of a strike that lasts six weeks to two months, steel producers generally would make no money in the third quarter, and might even sustain a loss. The period following such a long strike, however, would be marked by brisk demand and rising production — for a time — as consumers rebuild their inventories. Hence, following a strike, the fourth quarter could see steel operations as high as 80 per cent of capacity. At this level, steel company earnings can be excellent, exceeding those reported for the fourth quarter of 1958.

Price Rise Depends on Outcome of Negotiations

It appears reasonable to expect that if steel companies are able to conclude a fair, non-inflationary settlement with the union that there will be no price rise. But if labor costs go up sharply, a steel price boost of $4 or $5 a ton is a strong possibility, even if it means keener competition from aluminum and from foreign steel producers. The steel industry cannot afford to start down the road towards lower profit margins and eventual financial weakness, towards which it would be pushed by annual union demands.

The Steel Investor

At the conclusion of a sound labor settlement, the major steel companies should be in a position to do something for their shareholders. Already Inland Steel has split its stock on a three-for-one basis, and similar splits or at least larger dividend payments may come in a year or less at United States Steel, Republic, Youngstown Sheet & Tube, Armco and Jones & Laughlin.

Changed Profits Picture

The steel industry went through the recent recession in better shape than it has ever passed through such a period. Only two or three of the principal companies were compelled to reduce their dividends. Major producers such as U. S. Steel, Bethlehem and Armco Steel demonstrated their ability to operate at a profit with ingot operations at less than 50 per cent of capacity. This the major producers had never been able to do in the past. Clearly on this performance the leading steel producers showed their right to a higher investment evaluation. The industry has emerged from the period when it was noted for its feast or famine characteristics. It has achieved increased stability.

Steel producers are in a strong financial position. Last year, the working capital of 33 companies totalled over $3.3 billion. With operations averaging only 60 per cent of capacity, sales of these companies declined over 20 per cent to $12.1 billion. Net income was 31 per cent lower. But these companies still chalked up a net profit of nearly $770 million, in a recession year.

This year, with ingot output likely to exceed last year's 85.2 million tons by over 30 per cent, earnings of individual steel companies should rise appreciably. Some of the leading steel companies are apparently headed for new records in earnings despite the indicated let-down during the third quarter, when the industry will either experience a strike, or will feel the after-effects of the present inventory accumulation by customers.

This is one year in which the prospect of a poorer second half than the first half should not be regarded as a signal that the industry is headed downward. The factors accounting for the second half decline are not to be underestimated, but they are in a sense "non-recurring" — if union troubles can be given this innocuous label.

There is no doubt that many investors wil be inclined to look beyond the period of strikes, or threatened stoppages, and of inventory cutting, to a possible peak in sales, and perhaps earnings, next year.

Such a new peak could be achieved if auto sales and home building starts hold at present levels, and if the capital goods industries show improvement through 1960.

Individual Companies

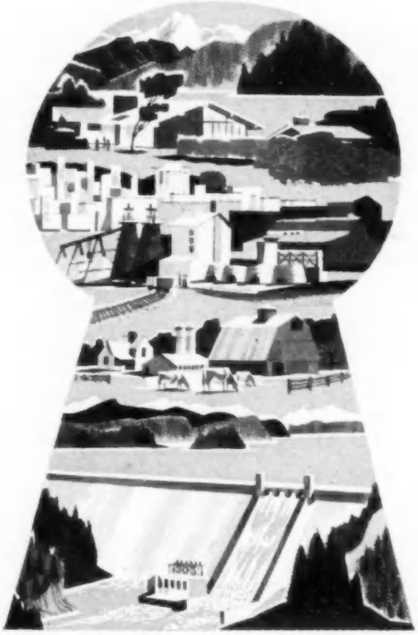
Coming now to a closer inspection of individual equities and consideration of their market potential, one is confronted with the realization that representative stocks in the steel group are more fully appraised than investors have been accustomed to evaluating cyclical issues. It is true that the industry has come a long way in demonstrating outstanding progress in controlling costs and in maintaining profits at unusually low operating ratios. Increased efficiency has commanded higher appraisals of earning power, but, around recent levels, leaders in the group could scarcely be deemed undervalued in relation to either projected 1959 earnings or current dividend distributions. Institutional investors have been adding such issues as U. S. Steel, Bethlehem, Armco and Republic to their portfolios in recent years, but purchases evidently were made at more reasonable price-earnings ratios.

A boost in payout by **U. S. Steel**, for example, from the $3 annual rate paid in 1957 and 1958 would not be too surprising if net profit this year should rise to the area of $7 a share, from the $5.13 reported for 1958. Opening quarter earnings of $1.86 are well above the $1.04 per share last year. On the other hand, if the industry should feel impelled to absorb additional manufacturing and labor costs in the second half of 1959, earnings for the year might fall short of earlier optimistic projections and dividend generosity might be tempered to some extent.

Under improving conditions, profits of a well managed, partly non-unionized producer such as **Armco** (which reports 127% earnings increase in the first quarter) might amount to $5.25 to $5.50 a share for this year, compared with $3.87 for 1958. Dividends are being paid at the annual rate of $3 a share.

A better demand for structurals could lift earnings this year for **Bethelem** to $4.60 or $4.75 a share, against $2.91 last year, and the $2.40 annual dividend might be liberalized slightly.

Electric power – the key to better living and economic progress



QUICK FACTS—1958

	Amount	Per Cent Increase Over 1957
Net Income for Common Stock	$ 6,424,342	8
Per Share of Common Stock	$1.97	8
Per Cent of Operating Revenues	22.4	2
Dividend Rate Per Share at End of Year	$1.44	6
Gross Additions to Utility Plant	33,328,521	15
Kilowatt-hour Sales (in thousands)	2,381,562	6
Peak Load—Kilowatts	601,000	14
Customers at End of Year	207,432	4
Average Annual Kilowatt-Hour Use Per Residential Customer	7,840	3

CONSTANTLY expanding use and new applications make electric power increasingly indispensable to the more abundant life and our national economy and security. When this concept is adhered to under a system which respects the dignity, worth and freedom of every person, then we know we are succeeding in the vital task of satisfying human wants. To this Puget is dedicated.

For copy of Puget's 1958 Annual Report, write: Frank McLaughlin, President, 860 Stuart Building, Seattle 1, Washington

PUGET SOUND POWER & LIGHT COMPANY

PUGET POWER

Inland already has taken action on a larger payout through approval of a 3-for-1 stock split and an increase in the regular dividend to the equivalent of $4.80 on the old stock, compared with $4.50 paid in 1957 and 1958. Earnings this year should range well above $3.50 a share for the split stock and may reach $3.75, against $2.77 last year.

Jones & Laughlin is expected to achieve the best record percentage wise among the top six or eight leaders, inasmuch as the benefits of expansion and modernization are becoming increasingly evident. Net profit should at least double last year's $2.79 a share.

With the best March quarter in history, **National Steel** is expected to experience one of the most favorable years on record. Net profit may approach $8 a share, again $4.80 last year, and restoration of the old $4 annual dividend is a reasonable hope.

Republic Steel should achieve an improvement of more than 50%, with earnings ranging above $6.50 a share, against $3.96 in 1958. Possibility of an increase in the $3 rate appears possible.

Youngstown Sheet & Tube, with the benefit of a strong competitive position in the Chicago market, is expected to boost earnings this year to the range of $10 to $12 a share, and liberalization in the $5 annual rate would cause no surprise.

Marginal producers are expected to register impressive improvement, unless demand fades to a greater extent than now anticipated in the second half.

As a major supplier of equipment for the steel industry **Blaw-Knox** benefits from expansion and modernization programs. This company also supplies equipment for the construction industry. Rise in general business activity promises to find reflection in larger volume this year. Acquisition of Aetna-Standard should bolster sales and earnings. Net profits may range well above the $3.84 a share reported for 1958.

Universal-Cyclops Steel, which formerly has concentrated on stainless and high alloy tool steels, now has enlarged its sphere through acquisition of Empire-Reeves, affording access to markets for flat rolled products. Earnings this year may double the 1958 showing of $2.04 a share. END

Realistic Appraisal Of The Automobile Industry For 1959-60

(Continued from page 215)

will have to meet a new type of competition this Fall, when the Big Three introduce their new compact cars, placing them in direct competition with the Rambler and the Lark.

This development is likely to cut profit margins of American Motors rather substantially. Big Three producers, eager to establish their new entries, are likely to price them at a level which will be somewhat below current listed prices of the Rambler and the Lark. The independent producers will have to meet this price competition.

In addition, the supply of compact cars will suddenly rise sharply. This will put a premium on a strong dealer organization and on sound selling policies. American Motors has greatly strengthened its dealer organization, and should be able to make a reasonably good showing. But it is not likely to be able to equal its fine profit showing for the 1959 model year. Even if it is able to sell as many cars next year against strong Big Three competition, it will probably have to absorb too many costs to equal the 1959 profit showing.

Chrysler: Although Chrysler was plagued in the early months of the year by work stoppages at both its own plants and at the facilities of certain major suppliers, first quarter earnings were higher than for any 1958 period. The company has strengthened its internal organizational structure, and a recently completed modernization program increases efficiency and should help widen profit margins. Judging from current operations, first quarter earnings may approximate $1.30 and full year earnings in the neighborhood of $6.50 per share seem possible, a gigantic improvement over last year's deficit of $3.88, even after a tax credit of $4.53. Chrysler has a new small car in the works for introduction sometime this fall, and thus should be able to maintain its competitive position. Of particular interest to the investor is Chrysler's large earnings leverage which results in greatly increasing profits per share once the break-even point of approximately 800,000 units is achieved. This break-even level may now be lower still as a result of increased efficiency. An increase in the current $1.00 dividend is considered a good possibility if earnings continue strong throughout the year. Chrysler could attain substantially higher earnings in 1960, assuming a 6 million car year, and 18% market penetration, and the stock appears to offer merit for the investor who can afford to assume some degree of risk.

Ford: The first quarter for Ford was one of record achievement. Sales climbed 35% above the 1958 period while per share earnings registered a whopping profit of $2.46 per share. Most of the gain was attributable to sales of the Ford division whose line is in close competition with GM's Chevrolet. At present, it appears that Chevy is leading; but the race is close and the year still young. Full year results could be impressive with earnings possibly exceeding the $5.19 earned in 1957. Although working capital may have to be bolstered by additional long term loans, it would appear that Ford is in a solid position industry-wise. The company is planning to bring out a new economy model that could add importantly to sales this fall. Ford suffered badly last year from the lower level of sales, for the company's break-even point is geared to fairly high volume. The current dividend of $2.40 is nominal and if earning power develops to the extent anticipated, an increase or year-end extra would appear possible.

Fruehauf Trailer: Fruehauf appears to have turned the corner after more than two years of adversity. Current operations would seem to indicate that an earnings improvement is in the cards. Top management was completely revamped in late 1958 and the product line reorganized so that while the company still offers a complete range of truck-trailers, only seven basic models are produced. Quality has been improved and profit margins widened through increased efficiency of operations. A new plant in Alabama has recently been completed. Although year-end re-

1958 ANNUAL REPORT
STANDARD OIL COMPANY (INDIANA) AND SUBSIDIARIES

EFFICIENCY RISES; COSTS CUT

MANUFACTURING. Emphasis continues to be placed on quality improvement. We are well on the way to achieving our objective of reducing operating costs while continuing to improve the quality of our products. For example, scheduled for completion in May, 1959, is a 140,000-barrel-per-day crude distillation unit which will replace nine smaller, obsolete units at an important cost saving in operation. Our new petrochemical plant at Joliet, Illinois, was essentially completed in 1958.

MARKETING. The company achieved excellent results through reseller channels, particularly in the sales of premium gasolines. Sales through service stations and other retail outlets increased about 5%, exceeding the industry pattern. For the year, our total volume of product sales declined 2.5%, largely the result of lowered industrial demand for residual fuels and the dropping of marginal commercial accounts.

PRODUCTION. A number of promising fields were opened in this country and Canada by Pan American Petroleum Corporation. Among these were the Swan Hills area of Alberta, Canada. Net domestic production of crude oil and natural gas liquids declined 6.7% in 1958, due largely to restrictions on production by state agencies. Net natural gas production increased slightly—to 1.35 billion cubic feet daily. Our crude oil, natural gas liquids and natural gas reserve position showed continued growth.

INTERNATIONAL. Emphasis on foreign oil exploration and development was increased substantially with the formation of a new subsidiary, Pan American International Oil Company. International's overseas activities now encompass seven countries on four continents. A second new subsidiary—Amoco Trading Corporation—was formed in 1958 to handle international crude oil marketing activities.

RESEARCH was responsible for several important improvements during 1958. Our research scientists engaged in a wide range of petrochemical studies. We have developed a strong patent position in methods of producing thermoplastics and organic intermediates. We also have developed a new drilling technique, based on a modification of an air-driven quarry type drill.

NET WORTH AND FINANCING. Net worth at the end of 1958 stood at $2,076,900,000—the highest in Company history. Book value per share increased to $58.06 in 1958 from $56.26 in 1957. During the year, the Company sold $200 million principal amount of 4½% Debentures, due October 1, 1983. At year end total borrowings amounted to $467.5 million, equal to 17% of total assets.

DIVIDENDS. In line with our policy of paying dividends equal to approximately one-half of our earnings, regular cash dividends were supplemented in the fourth quarter with a special dividend in Standard Oil Company (New Jersey) stock. Dividends paid, including the value of the Standard Oil Company (New Jersey) stock on date of distribution, amounted to $1.687 per share. We have paid dividends for 65 consecutive years.

THE STORY IN FIGURES

	1958	1957
FINANCIAL:		
Total income	$1,882,441,000	2,029,689,000
Net earnings	$ 117,775,000	151,509,000
Net earnings per average outstanding share	$ 3.29	4.27
Dividends paid*	$ 53,197,000	56,302,000
Dividends paid per share*	$ 1.687	2.110
Earnings retained in the business	$ 64,578,000	95,207,000
Capital expenditures	$ 270,387,000	340,274,000
Total assets	$2,769,317,000	2,535,023,000
Net worth	$2,076,853,000	2,012,260,000
Book value per share	$ 58.06	56.26
PRODUCTION:		
Crude oil and natural gas liquids, barrels per day, net	285,474	307,500
Natural gas, thousand cubic feet per day, net	1,347,590	1,298,158
Oil wells owned, net (year end)	10,872	10,722
Gas wells owned, net (year end)	2,193	2,085
MANUFACTURING:		
Crude oil and natural gas liquids, etc., processed, barrels per day	640,648	648,076
Crude running capacity, barrels per day (year end)	691,800	714,000
MARKETING:		
Refined products sold, barrels per day	645,745	662,676
Retail outlets served	29,032	29,874
Natural gas sold, thousand cubic feet per day	1,422,498	1,391,315
Crude oil sold, barrels per day	277,183	341,594
TRANSPORTATION:		
Pipelines built, miles	281	175
Pipelines owned, miles (year end)	17,568	17,366
Pipeline traffic, million barrel miles	152,796	156,451
Tanker and barge traffic, million barrel miles	93,710	86,125
PEOPLE:		
Stockholders (year end)	151,937	148,375
Employees (year end)	46,033	49,678
Wages and benefits	$ 352,469,000	370,128,000

*"Dividends paid" include the value *on this Company's books* of the Standard Oil Company (New Jersey) stock distributed as a dividend. "Dividends paid per share" include the *market* value of the Jersey stock on date of distribution.

Other major subsidiaries (wholly owned): Pan American Petroleum Corporation • Service Pipe Line Company • Indiana Oil Purchasing Company • Tulema Gas Products Company • Pan American International Oil Company • Amoco Trading Corporation • Amoco Chemicals Corporation

STANDARD OIL COMPANY

910 SOUTH MICHIGAN AVENUE, CHICAGO 80, ILLINOIS

Please send me a copy of the Standard Oil Company (Indiana) 1958 Annual Report.

NAME____________________

STREET____________________

CITY______________ STATE________

sults for 1958 were not encouraging as a result of non-recurring expenses and special charges, current estimates of per share earnings indicate a good recovery from the deficit of 1958, — and there is a good possibility that earnings in 1960 might be higher. Earnings for the three months ending March 31, 1959 were 35¢ per share versus a deficit last year. Fruehauf has a leading trade position, and the increasing tonnage of freight that is being moved by highway augurs well for continued growth in trailer sales over the longer term. The piggy-back technique is receiving quietly growing acceptance, and Fruehauf has developed a "containerized" model specifically designed for use on the specially constructed piggyback railroad cars. We would anticipate resumption of the cash dividend before too long should improving profits materialize.

General Motors, aided by diversification in foreign countries, as well as by its interest in appliances, diesel engines and other products in the United States, is expected to show a net profit fully 50% larger than the 65¢ a share which it reported for the first quarter of last year. It should be able to accomplish this although factory sales to dealers in the first quarter were only 18% ahead of the first quarter of last year. Government business accounted for but 5% of total 1958 sales.

Earnings in 1958 of $2.21 barely covered the annual $2.00 dividend. However, based on anticipated higher car sales this year, General Motors may be expected to exceed last year's results by a good margin. Assuming a 6 million car year in 1960 and with perhaps some contractions of profit margins realized on the economy car, we would estimate possible earnings to be somewhat higher.

There are two contingencies overhanging General Motors, first an antitrust action and second, the forced divestment of the General Motors shares now held by Du Pont. It is not believed that this antitrust investigation will have any important repercussions, in so far as the Du Pont holdings are concerned; if and when Du Pont is forced to dispose of its General Motors stock, the ensuing weakness would be mainly a technical consideration.

At recent prices which are around 22 times 1958 earnings, General Motors does not appear to be on the bargain table; but in view of the well covered $2.00 dividend this year, the downside risk appears limited.

Mack Truck: Mack Truck has become a highly integrated producer, and although earnings in 1958 declined to $3.03 as a result of generally less favorable economic conditions, the fourth quarter showed an increase which indicated that an upturn was in sight. First quarter earnings are not yet available. The financial position of the company has shown an improvement along with production efficiency. Mack makes its own engines as well as cabs, frames, axles, and transmissions, plus other component parts, and through the efforts of its research staff a number of new items have been developed. Considerable effort has been expended on development, for example, of a new type of bus which if accepted by Greyhound could add considerably to sales volume. The outlook for the future has improved over recent months. The $1.80 dividend is amply covered by current earnings and company finances are adequate.

International Harvester: International Harvester has not had a particularly outstanding record in recent years, although current prospects indicate an earnings improvement this year over the $2.69 for 1958. The company makes a number of items, chief amongst which are trucks. As mentioned earlier in this article, truck sales this year should increase substantially, and sales of construction equipment, a field the company entered in 1952 should likewise grow in 1959. The current backlog of unfilled orders is substantial. In order to meet the increasing demand, Harvester has increased production. Replacement demand should aid farm equipment sales and we would project possible further gains in earnings for 1960. Foreign subsidiaries are believed to add about $1.00 per share earnings, but as these are not consolidated, overseas operations are not reflected in reported earnings.

Studebaker-Packard: The company's once proud line has been reduced drastically, and if the company is to make real progress as a factor in the auto business, the new Lark will have to enjoy widespread success this year. Although initial reception of this car has been good, a large pitfall may lie ahead with the introduction by the Big Three later in the year of their new economy models which will compete strongly in the market Studebaker now serves. The situation is not entirely bleak, however. A new and acquisition minded management has taken over, and the company has been recapitalized. Operating losses in recent years have resulted in tax credits amounting to around $142 million which makes further acquisitions economically feasible. In fact merger discussions were recently held with Divco-Wayne, but were not successfully concluded. Other mergers will undoubtedly be under consideration. For the 1st quarter of this year company reported earnings of $1.14, but even if earnings in the area of $5.00 per share should materialize this year, a possibility based on company's substantial tax credit available, and assuming a sales level of 150,000 units, the stock is not recommended except as a rank speculation on management's ability to achieve profitable operations through existing facilities and new acquisitions.

White Motors: White Motors turned in a creditable performance in 1958 considering the highly competitive nature of the heavy truck industry and the generally depressed economic level of the past year. The company is in a sound competitive position and incoming orders are reportedly flowing at a favorable rate. White has actively pursued a policy of making acquisitions, as exemplified by the purchase of Diamond T, and the President recently stated that the company will consider further moves in these directions. Recent consolidation of most of the short term debt into a more favorable long-term obligation adds to the financial strength of the company. Although commercial vehicles account for around half of total sales, important revenues accrue from parts and service sales and government business. White's diesel engines also serve the oil drilling industries. Earnings this year should moderately better last year's results. The stock does not appear to offer overly dramatic capital growth opportunities.

Outlook For Trucks

The truck business has improved even more sharply than the automobile business. Production of trucks thus far this year has been running over 35 per cent higher than in the same period of last year. This reflects the improvement in trucker's business. Thus far, sales of foreign built trucks are small. But even here, a threat is rising, for imported trucks accounted for 4.1 per cent of total sales in January, against 3.1 per cent a year ago.

The automobile business has pulled out of the recession. But it still faces problems which may curb its profit per unit sold, over the next few years. Growth of the total market, however, may offset the dip in profit on each car sold. END

Rubber Industry Combines Stability With Plenty Of Bounce

(Continued from page 217)

portant allowing a much shorter time lapse between alert and launching. This is in contrast to the liquid fueled missiles which, because of the unstable nature of liquid fuel, cannot be kept "gassed up" and ready for launchings.

Such contributions, in the field of high energy fuels, have opened whole new vistas to the rubber industry.

Continued Growth Ahead

The aggregate decline of automotive tire production to 96.6 million units in 1958 from 106.9 million in 1957 obscures both sharp year-end recovery and an actual gain of 8% for replacement tire production. Per share comparisons of fourth quarter earnings of 1958-1957, reveal increases ranging from 27% to 44%. Fourth quarter gains were sparked largely by recovery of original equipment sales as auto production increased, but also by continued demand for replacement tires which was particularly strong in the second half of the year. Original equipment demand is expected to stage a strong recovery based on prospects of a 5 to 5.5 million car year and truck production of ap-

proximately 1.1 million units. Assuming these projections materialize, original equipment tire production in 1959 will exceed 34 million units, a gain of about 30% over 1958. The base for replacement tire demand, which is the number of aging cars on the road, was broadened by the poor auto year in 1958.

A gain of about 3% to 73.0 millions units, was projected for this group although first quarter 1959 results were distorted by feverish inventory building in anticipation of the April strike by the United Rubber Workers. Finally, a price increase of 1%-2½% on original equipment casings, the first important increase since October 1957, will help offset rising costs. This increase is expected to spread to the replacement market later in the year.

Non-tire volume, principally industrial rubber products, chemicals, plastics, and defense work, which accounts for as much as 60% of sales for some of the major companies, also recovered sharply late in 1958 and is expected to continue to gain this year. Breakthroughs in synthetic duplication of natural rubber have been announced and may herald increasing penetration of natural rubber markets, especially in heavy truck tire sales. Additional capacity for synthetic production points to higher profit margins on the basis of firmer control of production scheduling and prices.

Barring a prolonged industry strike or an unexpected business slump, rubber companies are likely to post substantially higher earnings this year. While stocks have had sharp runups in recent months, new highs are a reasonable expectation.

Company Comments

Firestone Tire & Rubber Company is the second largest company in the industry. Tire volume accounts for about 60% of sales with Ford the main customer. The company has almost 800 retail outlets which handle its replacement business. Independent dealers and some oil companies also distribute replacement tires for Firestone. Tire capacity of about 105,000 units per day is largely centered in Akron, Ohio. Synthetic capacity of approximately 230,000 tons annually is the third largest in the industry. Firestone also produces mechanical rubber goods, foam rubber and plastic, metal products and does some guided missile work.

Results for 1958 were below the previous years performance. Since the company's year ends in October, its year-end recovery was not as strong as the other calender year companies. These concerns had the benefit of two more months of good replacement volume and rising original equipment sales. This is of course reflected in Firestone's first quarter, which was a good $1.66 per share versus $1.38 the corresponding quarter of 1958. Full year 1959 results should continue to reflect these strong trends, and earnings approaching $7.50 per share are anticipated.

Currently selling at 143, the stock is not undervalued, but can be held by strictly long-term investors.

Goodyear Tire and Rubber Company is the largest factor in the industry. Tire volume accounts for approximately 60% of sales with Chrysler the main customer. An extensive network of retail outlets including more than 4,000 dealers, oil companies, and over 500 company owned stores distributes replacement tires, as well as other items. Synthetic capacity reported at over 250,000 tons is reputedly the largest in the industry. Diversification has carried the company into such fields as aviation and missiles, and electronic computers. Foreign business is important, ac- and is largely tires produced outside the United States.

Operating results in the last counting for about 25% of sales, half of 1958 rebounded sharply, from depressed levels of the first half, and promised a continuation of favorable results throughout 1959. Earnings recovery to about $6.25 per share is looked for. At 137, this issue appears to already reflect expected gain in 1959 earnings. Investment portfolios may wish to retain for longer term.

B. F. Goodrich is the fourth largest member of the rubber industry. Although sales are almost half those of Goodyear. The company has solid long term commitments to supply original equipment tires to General Motors. Goodrich is considerably less concentrated in tire pro-

duction than the preceding two companies as only about one-third of total sales is tire volume. The next most important area of operations embraces chemicals, plastics, and polyvinyl materials. Various plastic and polyvinyl products have end uses in rigid and flexible piping and building materals for housing and commercial buildings. Remaining volume is contributed by industrial rubber products, foam rubber, textile items, and aircraft and missile components.

The sharp recovery evidenced in the last half of 1958 is bolstered by the first quarter profits just reported at $1.15, compared with $0.70 in the same 1958 quarter. On this basis per share 1959 earnings could reach $1.50.

The United States Rubber Co. is the third largest of the top four companies. Similar to the other companies U. S. derives a substantial share of business from tire sales, about half. General Motors is the most important original equipment customer. The company has some mechanical goods, textile and chemical products, and an important line of consumer items such as waterproof footware, casual footware and coated and upholstery fabrics. Lastex, polyester resins, and polyethylene yarn are also found in the product mix. U. S. is a joint owner, with Texas Co., of a copolymer plant, and also owns a half interest in a butadine plant. Synthetic capacity of the Texas-U. S. unit is about 143,000 tons per year.

U. S. Rubber is the first to develop polysoprene to a point where it is competitive with natural rubber. Production is still small but substantial demand, particularly for vital military needs, seems assured. Earnings in the first 3 months of 1959 have more than tripled, rising to $1.55 contrasted with only $0.45 per share in the initial quarter of 1958. This issue is selling at a lower price-earnings ratio than other major companies in its field and has investment attraction.

At 58 the stock appears reasonably priced in relation to estimated 1959 earnings around $4.50 or $5.00 a share, and can be purchased, subject to general market risks.

General Tire & Rubber Co. is fifth in size among the major rubber companies and obtains only about one-third of volume from tire lines. However, the company has a very dramatic and glamorous stake in the missile fuel industry through its interest in Aerojet-General, a leader in the field of rockets and propellants. There is about 3/4 of a share or Aerojet behind every share of General Tire through the company's ownership of 3,771,672 shares of Aerojet-General. At the current price of 90 3/4 Aerojet accounts for about 90% of the market value of General Tire. Remaining volume is accounted for through plastic products and industrial and sporting goods. General recently entered the synthetic field in a small way and has an annual capacity of 30,000 tons.

The company also has a string of T. V. and radio stations which recently have been very profitable. Record operations for R. K. O. - Teleradio plus a 67% gain in profits of Aerojet General pushed first quarter sales and earnings to new highs. Based on continued anticipated improvement in all lines profits for 1959 could approach $4.00 per share.

Currently selling at 76 1/2, the stock has reached a high multiple of anticipated near-term earnings. Investors may wish to take profits to the extent of, say, one-half of holdings. END

Spectacular Economic Resurgence In Japan

(Continued from page 207)

Voluntary Quotas

In an effort to lessen the impact on specific American industries and avoid the imposition of restrictive measures here against their products, the Japanese themselves have, for a number of commodities, imposed voluntary quotas on their shipments to the United States.

The voluntary quotas on specific products relate to quantity, quality and price. They were adopted by the industries and trading companies concerned and are carried out by them.

Their objective, the Japanese say, is an orderly development of a just share of the American market.

The quotas set by the various industries are enforced by the export associations in coopera-

tion with the Ministry of International Trade and Industry. *American officials are convinced that the Japanese Government, which only suggested and did not impose the quotas, could not have forced them on the individual industries if the latter had not wanted them in their own best interests.*

The principal commodities on which the Japanese now are exercising voluntary export controls are cotton-textiles, chinaware, sewing machines, hardwood plywood, stainless steel flatware and tuna.

American officials have warned the Japanese that they must make a more comprehensive study of the U. S. market to secure the greatest advantage from its possibilities without raising domestic resentment by concentrating intensely on a few specific items.

One handicap under which the Japanese manufacturer labors in trying to win a greater share of the American market without causing competitive resentment is that unlike most U. S. producers, he does not control his own export and distribution system. *Aside from a few of the big Japanese steel producers, the manufacturer in that country has no voice in where his product is shipped or in what concentration it is marketed.*

His product is sold through a trading company which may not be as interested as it could be in his long-term welfare. The trading company, in the interest of quick and greater profit, may unload the manufacturer's entire production in one American city. This naturaly raises protests from American suppliers who might not even have felt competition if it had been spread out over a wider area.

Correction:
In our story, "Makers of Electronic Devices and Controls", which appeared in our issue of March 28, 1959, we incorrectly credited RCA with developing the ceramic tube which was used to transmit messages from the Pioneer IV moon-probe rocket. This long-range transmitting tube was actually developed by the General Electric Company.

New Trade Pattern

There has been a radical change in Japan's trade pattern since the war. Immediately before World War II, more than 40% of Japan's exports went to China, Korea and Formosa. which were areas over which Japan had partial or complete control. In 1958 less than 7% of Japan's exports went to those areas and only 1.8% to Communist China.

The post-war political situation thus has forced Japan to adapt herself to a disruption of her previous trade pattern.

The United States now takes a larger share of Japan's exports than it did before the war but other areas such as Africa, South and Southeast Asia and South America have increased their purchases from Japan even more in proportion than has the United States.

Trade with Red China

► Japan's commerce with the Sino-Soviet Bloc in 1957 amounted to only 2.6% of its total trade that year, while in 1957 Japan's trade with the United States represented about 31 per cent of that country's total trade.

► The Japanese Government and its major businessmen are pretty well disabused by now of any ideas they might have of doing a really worthwhile business with Communist China. The Japanese Government has no diplomatic relations with the Chinese Communists but it gave its blessing to private Japanese efforts to increase trade with the mainland.

Although private Japanese trade missions succeeded in negotiating some relatively modest agreements designed to increase commerce with the mainland, they came to nothing when the Peking regime refused to carry out its side of the bargain because of displeasure with the Japanese Government's continued political alignment with the United States.

The Japanese Government in July 1957 followed the lead of Britain and some other western governments in reducing the export controls on shipments to Red China to the level applied to the Soviet Union. More rigid controls and restrictions on the China trade had been applied during the Korean War.

However, despite the lowered controls Japan's total trade with the China mainland in calendar 1957 declined by more than 6% as compared with the previous year. Trade between the two countries now is at a virtual standstill.

American officials and economic experts are convinced that Japan will not make any undue efforts to increase trade ties and commerce with Red China so long as its traders are able to find an expanding market in the Free World. This is a major reason for the U. S. Government's continued efforts to help Japan expand its foreign commerce in non-Communist areas.

Export Products

Before World War II Japan's principal exports were textiles, ceramics, toys, light consumer goods and marine products. These items still bulk large in Japan's export trade.

However, during the post-war period the Japanese have made an effort to shift the emphasis from light to heavy industry and the result has been a steadily increasing export of machinery, iron and steel products, chemical fertilizers and ships.

This shift, if it continues at the present pace, will do much to alter the somewhat "shallow" nature of the Japanese economy.

American economic experts are convinced this trend will continue and the Japanese economy will achieve greater stability over the long haul, with only constant small fluctuations.

Concentration of Economic Power

An interesting feature of the Japanese economic picture in re-

cent years has been the tendency to return to the pre-war concentration of economic power in the hands of groups of extremely powerful industrialists and financiers.

During the Allied Occupation of Japan, General Douglas MacArthur broke up the old "Zaibatsu", which were the family trusts controlling most of the country's major industry.

In 1937 four of these family trusts—the Mitsui, Mitsubishi, Sumitomo and Yasuda—controlled directly one-third of all bank deposits, one-third of all foreign trade, half of Japan's shipbuilding and maritime shipping and most of the mining, metallurgy, heavy engineering, chemical, brewing, paper, sugar, canning and other industries.

They helped finance strategic semi-official enterprises around the World.

The American action to break up the "Zaibatsu" was taken because these family trusts were considered to have been the chief supports of the rampant Japanese militarists in their ambitious but ill-fated scheme for conquering a vast empire.

As soon as Japan regained some control over its own affairs after the war, the Japanese began putting back together again some of the pieces of these trusts in new holding companies which now control large sections of the economy.

But there is one important difference between the new and old systems. The new "Zaibatsu" are not family concerns rigidly dominated by a powerful patriarch and his kin.

They are holding companies controlled by bankers and financiers who, by a system of interlocking directorships, have achieved a measure of economic ascendancy approaching that of the old "Zaibatsu".

And the support they provide the government is in the interest of conquering an economic market instead of a political empire.

Many American economic officials are convinced that this return of concentrated economic power in Japan was necessary in order to enable that country to compete successfully for the foreign trade without which it cannot live. They feel that relatively small Japanese concerns, competing against American and British giants, must pool their direction and resources if they are to achieve the efficiency required for survival.

They acknowledge that the breaking up of the old groups was justified to eliminate those who bore war guilt. But they have no fear that the new "Zaibatsu" will repeat the political errors of their predecessors.

Government as Referee

The Japanese government, as noted earlier, keeps a close watch on the balance of payment figures and acts quickly—as it did in mid-1957—to apply credit restrictions and other fiscal measures when such appear necessary to head off an undesirable or disastrous trend.

At the end of 1958, the Bank of Japan was able to report that the value of the country's exports during the calendar year had exceeded its imports by $260 million. Japan's exports worldwide during 1958 were equivalent to $2,728 million, while imports were $2,468 million.

When invisibles were added to both figures, total receipts for 1958 stood at $3,510 million, compared with total payments of $2,999 million — an overall favorable balance of $511 million.

This was a great improvement over the situation only a few years ago when it was only through its special dollar receipts from the U. S. military that Japan was able to show any favorable balance of $511 million.

Special dollar expenditures of the U. S. government and its personnel in Japan in 1958 totalled $484 million, *which was less than the $511 million favorable balance and meant that Japan for the first time had been able to achieve a position where the balance (including trade and invisibles) came out on the black side of the ledger without the necessity to include the special American expenditures.*

United States Aid and Mutual Defense

It is expected that special dollar receipts from the American government and military personnel in Japan will continue at about the present rate for some time. Japan gets no special economic aid now from the United States, although she received about $2,000 million in assistance

during the occupation period which ended in 1952. American special expenditures there now consist of $207 million in personal sales to U. S. military personnel, $173 million in American military procurement and $104 million spent by U. S. civilian agencies.

Japan and the United States at present are renegotiating their security pact, under which the American Government maintains air and naval bases in the islands, to make the arrangement "more equal", as the Japanese put it. They believe the present security pact infringes somewhat on their sovereignty and they want it reworded more along the lines of the mutual defense treaties the United States has with the NATO countries.

The revised pact is not expected to reduce materially the number of American military personnel now in Japan or the level of U. S. Government expenditures there, according to Washington officials.

Breakdown of Japan's Import-Export Trade

Japan's 1958 exports totalling $2,728 million were distributed on a geographical basis in the following percentages: to Asia, 37.4%; to Europe, 11.6%; North America, 29.5%; South America, 3.9%; Africa, 14.5%; Australia and Oceania, 3.1%.

Of the total, the United States took 23.6%, Communist China 1.8% and Free Asia 29.6%.

Japan's 1958 imports of $2,468 million came from the following sources in the proportions noted: from Asia, 32.4%; Europe, 8.9%; North America, 44.7%; South America, 2.6%; Africa, 2.8% and Australia and Oceania, 8.6%.

In 1958 the United States was the source of 34.7% of Japan's imports. Communist China supplied 1.8% and from Free Asia came 26.9%.

Japan's 1958 trade with all Asia was less, percentagewise, than her pre-war commerce with China and Korea alone. This dramatizes the directional shift in international trade which the Japanese have succeeded in carrying out since the war.

Japan's Comeback

In attempting to explain Japan's remarkable post-war recovery, one finds a number of factors which must be considered.

The U. S. Government and people deserve great credit for taking a helpful instead of vindictive attitude toward Japan and assisting the prostrate country to regain its feet during the Occupation. The United States also has strongly supported Japanese export efforts in American and other foreign markets and has a large share in Japan's defense.

But this help alone, considerable as it was, merely enabled the Japanese to survive and plan anew their course in international diplomacy and trade.

Astute Thinking and Hard Work

Modernization of industrial techniques, the shift of emphasis from light to heavy industry, efforts at more adequate market analysis and the availability of a large skilled labor force all were factors in Japan's spectacular economic resurgence. The Korean War boom also contributed its impetus in the early 1950's.

Japan also moved quickly to restore her good credit rating by resuming service soon after the war on her bonds held abroad, of which about $100 million were in American hands.

However, in the final analysis Japan's dramatic recovery is essentially the story of an astute, resourceful and energetic people working out their economic destiny under the incentive system of free enterprise as opposed to the repressive moral and economic philosophy of communism or the smothering influence of socialist planning.

Prime Minister Kishi, in a speech to a joint session of the U. S. Congress during his 1957 visit, said:

"As the most advanced and industrialized nation in Asia, Japan has already shown that economic and social progress can be achieved without the Communist shortcut. We have already demonstrated that free enterprise serves human happiness and welfare in an honorable way, with full respect for the dignity of man.

"It is my firm conviction that Japan, as a faithful member of the Free World, has a useful and constructive role to play, particularly in Asia, where the Free World faces the challenge of International Communism. We are resolved to play that role".

What Lies Ahead?

So far as concerns the future, the Japanese are generally optimistic. They realize that international political development beyond their control can always affect their markets and their prosperity. And they live in apprehension lest Japanese products meet increased restrictions in some of the choice markets, particularly the United States.

But they are confident that, given a fighting chance, they can continue the upward trend by following much the same course which has brought them a relatively high degree of prosperity.

The Japanese Government is supporting a long-range five-year economic plan, which went into effect a year ago, the target of which is to attain and maintain an annual average rate of economic growth of 6.5%. The hope is to achieve, within the five years, a rise of 38% in the per capita consumption level over 1956.

To realize these goals, Japan will have to attain an annual average increase in exports of 10.5% and an annual average rise in imports of 5%.

The goals are admittedly approximate and the government does not have the direct control authority to force industry to work toward any specified figure.

The Japanese economy now has completely shaken off the effects it felt of the American recession and all major indices are rising. It also weathered, without undue damage, the deflationary credit measures the government took in 1957 to restrict imports in the wake of the inflationary boom.

Despite depressed conditions in some industries during 1958, business activity in general was sustained at a relatively high level.

Japan's most important economic problems at the beginning of 1959 appeared to be to employ fully the country's expanded productive facilities and maintain a moderate rate of economic growth.

Indications are that good progress is being made on both these fronts. END

Auto Parts and Accessories

(Continued from page 221)

glass supplier got off to a very poor start last year as car production sank to new lows, but in the latter half of the year GM's pickup, plus the excellent results scored by some of the independents, led to a decidely better performance. Earnings for the year dropped to $4.10 per share from $5.36 in 1957, but net was actually higher in each of the last two quarters.

With over two-thirds of its output channeled into new car use, Libbey is participating fully in the revived output so far this year. The prospect of a prolonged steel strike clouds the second half of the year, but a recovery to higher earnings is still probable.

Budd Company, which derives almost 75% of its sales from body frames and other basic original parts, suffered a severe decline in earnings last year, reporting only 33¢ against $1.91 the year before.

This year, however, the company will benefit from the spurt in new car production as well as an upswing in railway construction which accounts for about 12% of the company's business. In addition, an efficiency program designed to raise profit margins has just been completed. A good earnings recovery and a return to the 35¢ quarterly dividend rate appears likely.

Electric Auto-Lite's fortunes remain tied to Chrysler's output, and its performance is still subject to conjecture. Earnings fell sharpy to $1.68 from $4.72 in the previous year, and dividends fell to $1.40 from $2.50 in 1957.

Auto-Lite's outlook is further confused by its decision not to diversify, but rather to invest huge sums in Crane Company, a large but lately unprofitable plumbing supply producer. If management's bet on Crane's high intrinsic worth works out it may be a real coup, but for the immediate future shareholders cannot expect to receive much benefit from the 320,000 shares owned.

Other Companies

One of the more sensational performers in the latter part of 1958 was **Clevite Corp.**, a large producer of bushings and sleeve-bearings. Earnings of $1.60 per share failed to match the previous year's, but operations in the second half were at record levels. Costs have been pared stringently—and with the elimination of unprofitable product lines, 1959 could be an especially good year for the company.

Electric Storage Battery was one of the few companies specializing in replacement to suffer a sharp decline last year. Contrary to expectations, dealers elected to work down their inventories of batteries on the shelves and orders declined. This year, however, with inventories very low, a good recovery seems likely. Moreover, the acquisition of Ray-O-Vac gives the company a dominant position in the hand flash light and dry cell battery field, a factor that should contribute strongly to earnings in the future.

Accordingly, sales should recover strongly in 1959 making it probable that previous record earnings will be topped.

Rockwell- Standard Corp., a major manufacturer of axles, springs and bumpers, failed to earn its dividend in each of the first three quarters last year, yet payments were maintained. Fortunately, the current business upswing justifies management's faith. As a matter of fact, the strong last quarter of the year raised net to $1.75 per share, not too far below the $2.00 dividend requirement.

In 1959, however, coverage should be well on the positive side. The revived demand evident in the last quarter has continued so far this year, while increased efficiency from the closing of unprofitable plants should lead to higher profit margins.

Summary

A good recovery is in prospect for most parts and accessory manufacturers. Moreover, the strong replacement parts market assures most companies of adequate operations even if new car production fails to match expectations. Investors should bear in mind, however, that most stocks in the group have already scored substantial recoveries from their recession lows, and have therefore discounted a good deal of 1959's better results.

As a group, the investment quality of the parts makers has improved with diversification, but they are still not completely free of sharp fluctuations. Commitments must be made carefully. END

What First Quarter Earnings Indicate . . . Looking To 1960

(Continued from page 198)

32¢ a year ago.

Such earnings, however, hardly justify the stratospheric price for the stock. More to the point in this connection is speculative interest in the company's attempts to develop a color process for its famous Land cameras, and the recent success of a new product that can be appended to certain existing cameras to convert them to Polaroid-type cameras. Polaroid is undoubtedly a growing company. But how many years of future growth is discounted by the current price of the stock is anybody's guess.

Texas Instruments, an old favorite of this magazine, and one frequently recommended in the past has also soared off into the wild blue yonder. Whether it is worth the price or not, no one can tell, but at least this major manufacturer of transistors and geophysical equipment is fulfilling a basic requisite of real growth stocks. It keeps doubling its earnings. The first quarter was no exception. Sales jumped to $30 million from $20.4 million a year ago, and net per share zoomed to 74¢ from 34¢ in the same period last year.

Published statements by company officials predict confidently that results for the full year will at least double those for 1958—and perhaps they will. So far, there appears to be only one fly in the ointment. The Japanese have entered the transistor market in a big way and now pose a threat to American producers. How serious it is cannot yet be determined, but it could really hurt Texas Instruments. In the long run, however, the company's outstanding management and its proved ability to develop new and successful products should offset such inroads.

Another favorite of this magazine that has recently joined the

high-flying group is **American Machine & Foundry.** Excellent business generally, added to the sensational growth of the company's automatic bowling machines has led to a sharp rise in the price of the stock. To some extent, first quarter earnings justified the move. Sales and rental revenues rose to $57 million from $51 million and earnings climbed handsomely to $1.40 from 82¢ last year. Even more impressive, however, is the advance over the $1.26 per share reported in the last quarter of 1958.

Summary

It is difficult to find a single quarter in which so many industries and companies scored striking gains. In some groups all companies participated. A look at the table, for example, shows that all of the major tobacco companies improved their profits. Among the steels only **Lukens** failed to do better, and in the auto group even **Studebaker-Packard** reported profits of $1.17 per share in the first period. First quarter earnings for steel, auto, accessory and tire companies are reported in the articles on these industries appearing in this issue.

In some groups, such as the aircrafts however, there were mixed results. **North American Aviation** continued its recovery move by raising its sales above any quarter last year. Earnings, at 90¢ per share, moreover, were better than all but the third quarter of 1958 when a favorable product mix brought results of $1.07 per share.

Douglas, on the other hand, reported its second consecutive deficit quarter from operations. Lower spending by the government for conventional aircraft is partially responsible, but the company is also still absorbing the heavy developmental costs of its jet airliners.

Douglas is in a transitional period, between the phasing out of military aircraft production and the coming of age into full production of missiles. In the meantime, however, the higher profit commercial jets will sustain earnings once initial costs have been absorbed.

Regardless of industry patterns, however, the key question for investors is how rapidly earnings will continue to grow as the year progresses. Unfortunately the threatened steel strike leaves doubts regarding the high level of activity. If its tempo is merely an anticipation of the strike, stockholders may be in for a real letdown by year end. But, if we are really on a new leg of the post war advance, 1959 may well be a record year.

It seems certain, however, that record year or not, the rate of earnings growth will slow down as the year progresses. Until recently, industrial commodities were slow to respond to the business upturn, but there are increasing signs that the tide has turned. Furthermore, whether we have a steel strike or not, there is little doubt that American industry is in for a new round of wage increases. In sum, the cost squeeze will be with us again soon. For a short nine months stockholders reaped the benefits of increased productivity from wisely invested capital expenditures. Labor and material costs, however, may change the situation. END

The Deserts Of The Southwest Offering New Avenues For Growth

(Continued from page 201)

ground sources of saline or highly mineralized waters.

The five plants initially will provide relatively small amounts of water. They will, however, point up to industries and municipalities that saline water conversion is economically feasible. This will mean much to coastal cities, not a few of which have experienced arrested growth because of inadequate fresh water supplies as limitless supplies of convertible sea water lay at hand. *In addition, saline water conversion will create a vast new industry in itself—the design and construction of billions of dollars worth of conversion plants and equipment. Altogether, this project offers a new way to progress, growth and well being for the nation.*

Its Practical Now

Up to this time, the cost of fresh water converted from the sea and other saline sources has been prohibitive. Twenty years ago, it cost $5 per 1,000 gallons. The cost is now down to $1 per 1,000 gallons—still higher than the 30¢ to 50¢ per 1,000 gallons of natural water from municipal systems. *Projections by the experts indicate that by 1960 converted fresh water and natural water from newer municipal supplies will both stand at about 50¢ per 1,000 gallons.* Natural fresh water for irrigation purposes costs less than is now possible by saline water conversion. Most irrigation systems are governmentally subsidized, while many draw from rivers with cost of drilling for sub-surface waters absent.

Much of the present water shortage has been brought about in recent years by products unknown a generation ago. Production of one ton of acetate for the manufacture of synthetic textiles requires 240,000 gallons of water; production of a single ton of synthetic rubber demands 660,000 gallons.

As government forces move forward on the problem, private industry joins hands in the "assault." Major U. S. corporations are "lending a hand" with their own research and technical skills —and largely at their own expense! Sufficient that government officials describe their cooperation as "magnificent."

Generally, the initial plants with modifications to suit the waters of the areas in which they operate, will employ the long tube vertical distillation process. Fuel will be coal, oil, or natural gas as cost and other local conditions warrant. Later, it is believed that atomic fuels will be available for the largest plants. Atomic heat generation would effect tremendous savings in the cost of handling conventional fuels, especially coal.

Although plants will resort to the vertical tube stem distillation process, other methods are not to be ruled out. Under intensive study are vapor compression distillation, rotary type compressor stills, multiple effect evaporators, low-temperature flash evaporation, forced circulation vapor compression stills, critical pressure distillation, saline separation by refrigeration—even utilization of solar heat. These other processes, all differing from the one selected by the government for the initial plants, are under study and experimental development by numerous private companies and engineering colleges. END

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—*McDonnell Aircraft, recommended at 36½ on February 3, quickly hit a high of 49¾ on news of huge contract awards — and its move to the Big Board.*

—*Of 3 Forecast "buys" chosen last June,* Beech Aircraft, *which announced a new division to finance plane sales, has risen from 26¾ to 38* . . . Denver & Rio Grande Western *has proposed a 3-for-1 split and sprinted from 39¼ to 59¼ . . . while* Southern Pacific *rose from 45 to a new peak of 70 on increasing earnings.*

—International Tel. & Tel. *recently reported a 19% increase in earnings, raised its dividend and split its shares 2-for-1 so the present price is equal to 80 for the unsplit shares which we advised clients to buy at 18½.*

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For Profit And Income

(*Continued from page 223*)

with the industrial list. behavior of the stocks ranges from poor or fair to good. Among the best-acting are Lockheed, Martin, McDonnell (although it has reacted from recent high), North American Aviation, Northrop; also stocks of the leading makers of private planes: Beech, Cessna and Piper. Performance of Bell, General Dynamics and Grumman is not too good, not too bad. Boeing, Chance Vought, Douglas and United Aircraft are down sharply from earlier highs. Changing defense needs and contracts pose formidable problems in some cases. "The Pentagon giveth, and the Pentagon taketh away." Prospects for makers of private planes remain good, but the stocks are "up there". Some time ago Piper was recommended here around 22. At 37, it is no longer cheap on earnings. We suggest profit taking.

Two Oils

Profit prospects of most integrated domestic oil companies now appear favorable, although there is a sizable margin of error in forecasting earnings because much depends on the average level of gasoline prices and of refinery spreads from here into the late 1959 months. Off to a strong start in the first quarter, net of Atlantic Refining could range between $4.50 and $5.50 for the year, against 1958's $3.61. On a $2.00 dividend, the stock is reasonably priced for buying around 52, against 1957 high of 57⅜. Basically strong, Standard Oil (Indiana) could readily earn over $4.00 a share this year, up from 1958's $3.20. Dividends are $1.40 in cash, plus sizable annual distributions from the company's still important holdings of stock of Standard Oil (New Jersey). Now around 51 and performing well, the stock offers substantial possibilities. It sold as high as 65 in 1956.

Why Wait?

There is continuing disappointment for stockholders who have been hoping for better things from United Biscuit and United Fruit. First-quarter earnings of United Biscuit were 16 cents a share, against 9 cents a year ago; and below the 30-cent quarterly dividend. Around 25, the stock strikes us as a sound sale. So does United Fruit, at 40, on a $2.00 dividend. First-quarter net fell to 46 cents a share, from 79 cents a year earlier. Too often in this situation the trouble seems to be bad weather for banana growing, or Latin-American political eruptions or something else.

Rails

The rail average recently "went through" to a new 1958-1959 high. Although it subsequently dipped, in line with industrials, the technical pattern implies an uptrend. How much and how long are, as usual, unpredictable. But if the industrial list rises further, speculators will act on the assumption that rails should tag along. The threat of a summer steel strike is a factor, but could be exaggerated. Due to a five-week steel strike in 1956, earnings of affected roads fell sharply in July, but there were full August recoveries in most cases; and full-year net either gained or was well maintained. Some of the most speculative rails could rise most in percentage, but are too risky for our taste. Among others, there seem to be possibilities in Baltimore & Ohio at 45, Atlantic Coast Line at 61, Delaware & Hudson at 29 (a cash-rich road that plans to start buying in its own shares in substantial amounts), Illinois Central at 48, Northern Pacific at 51 and Western Maryland at 78. END

The Trend of Events

(*Continued from page 188*)

The Stockholder

What would happen to oil company earnings if the depletion allowance were abolished. or sharply reduced? In part, the answer has been supplied by the U. S. Treasury Department which estimated that without the depletion provision the oil industry would have had to pay nearly one billion dollars in additional taxes in 1957. Under such an extra tax burden, the industry would have had to reduce its its dividend payments by about 500 million dollars and pay the rest out of retained earnings. This would have reduced total oil dividend payments in 1957 by about one-third. However, the long-run effect might be even more serious, since a decline in retained earnings—the industry's chief source of funds for expansion — would force most companies to rely increasingly on outside financing — while the sharp reduction in dividend payments would make oil much less attractive to outside investors.

A reduction of the depletion allowance to 15 percent would, of course, be less severely felt than a complete abolition. But it would still reduce oil earnings and dividend payments by nearly 400 million dollars a year.

In the last ten years the oil *producing* industry (which excludes the refining, transportation and marketing segments) has had a net income ranging between 12 and 20 percent of net assets, according to figures published by the First National City Bank of New York. While this is a healthy rate it is by no means exceptional and, at least since 1910, has never put oil production among the half dozen top earners in American industry.

The percentage depletion provision has permitted the oil industry to expand at the rapid rate required to meet the demand for its product and to earn an income which may be termed moderate if one considers the extreme risks involved in wildcatting for oil. If this vital tax provision were to be removed or reduced, the owners of this industry would be only the first ones to feel the adverse effects. In the long run the entire U. S. economy which is fueled mainly by oil and gas, might be the loser. END

Business Recovery and The Stock Market

(*Continued from page 191*)

potentials, in issues that are not already priced out of reason. Suggestions will be made in the Magazine, in our company and industrial articles, and in special features as unusual opportunities emerge. END

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